

Maximizing the divestment price of a privately held company

Christoph Gosdenoz, CFA

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Abstract

While several studies have demonstrated that there is a relative price difference between companies listed on the stock market and privately held enterprises, no academic study has addressed the question of how this private enterprise discount can be reduced and the proceeds from a divestment can be maximized. This research project has focused on the seller's perspective in the takeover process in order to answer the following research question: What factors influence the ability of sellers to extract value when divesting a privately held target and how can these factors be optimized? Based on the existing knowledge base, the following key success factors have been determined to be the main elements of the divestment process to be studied: Increasing negotiation power by creating competition; Initiating the sales process under favourable market conditions; Selecting a group of bidders with the highest potential synergies; Inviting financial investors to the bidding process; Increasing transparency of target company information; Controlling information dissemination to potential bidders; Articulating a compelling value and growth story for each buyer; Optimizing the auction process used in the divestment; Overcoming price differences using deferred or conditional payments; and identifying and mitigating potential deal breakers. Typically, M&A advisors are hired by the owners of privately held companies in order to create a market for their illiquid asset. A survey-based study validating the perceived importance of the key success factors has been conducted in addition to multiple case studies, where specialized M&A advisors and their clients have participated. The study of five selected cases involving a privately held target company during and after the divestment process has produced results with high significance to other researchers and professionals involved in mergers and acquisitions. From multiple case studies, the best possible practices regarding the optimization of the key success factors has been derived and used to reappraise the existing knowledge base. While based on a systematic analysis of the data obtained, the research question has been answered, further studies with a larger sample will be necessary to generalize findings and to validate the theory developed.

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Glossary

There are no terms exclusive to this study. The glossary includes only definitions that are not easily understandable without previous knowledge in the field of takeover valuation or mergers and acquisitions. As most terms are widely used in academia and practice, the references merely indicate one piece of previous literature where the term is explained. However, this does not mean that the term is assignable to a single author.

Acquisition multiples: A ratio measuring how many times earnings (or another accounting measure) is paid for a company in a transaction used for relative valuation (Officer, 2007). This is sometimes also called the transaction multiple (Kaplan and Ruback, 1995).

Announcement date: The day on which a formal takeover offer is publicly announced by a potential buyer (Andrade, Mitchell, and Stafford, 2001).

Bidder: Company or investor submitting an acquisition offer for a target company (de Pamphilis, 2008).

Control premium: The price premium a potential buyer is willing to offer for a majority stake in a company, based on the expected benefits of control achieved through the transaction (Hanouna, Sarin, and Shapiro, 2001).

Deal breakers: In the context of mergers and acquisitions, deal breakers are issues that can prevent an announced transaction from being completed (Luypaert and De Maeseneire, 2014)

Due diligence: In the context of mergers and acquisitions, the due diligence is the investigation of the company offering its shares prior to closing a transaction (DiGabriele, 2007).

Earn-out: The term earn-out payment refers to the part of the transaction value that is deferred and paid out subject to certain post transaction milestones (Von Werra, 2014).

Enterprise value: Enterprise value represents the total or gross value of a business operation, defined as the sum of the fully diluted value of equity plus debt, net of non-operating assets (Damodaran, 2006). This is sometimes also called the Firm value.

Equity value: The value of equity, defined as the value of the business operations (net of non-operating assets) net of interest bearing debt (Damodaran, 2006).

Firm Value: See enterprise value.

Hubris: In the context of corporate takeovers, hubris refers to the risk that a bidding manager may overestimate his or her own ability to create value in an acquisition and thus bid too high a price for the target company (Roll, 1986).

MBI: The term management buy-in refers to a transaction where the external management acquires a majority of the share capital of a target company in order to assume ownership and operational control (de Pamphilis, 2008).

MBO: The term management buy-out refers to a transaction in which a majority of the share capital of a target company is acquired by its own management (de Pamphilis, 2008).

Mid-market: The mid-market deal size segment ranges from USD 10 million to USD 250 million in value (Mergermarket, 2013)

Pre-IPO: The term means ‘previous to the initial public offering’ and it refers to the status of a company before it issues shares on a stock exchange (Reuer and Ragozzino, 2007).

Private enterprise discount: The relative price difference between a privately held company and its listed peers which can best be measured by comparing the acquisition multiples paid for comparable listed and private companies (Officer, 2007).

Seller: In the context of takeover transactions, the legal owners of a company for sale (de Pamphilis, 2008).

Stand-alone value: The estimated fair intrinsic value of a company under a going concern scenario with no major divestment or business combination (Damodaran, 2006).

Target: In the context of takeover transactions, the company or assets considered by potential buyers for acquisition (de Pamphilis, 2008).

Tender offer: A publicly announced invitation to all the shareholders of a public target company to sell their stock at a specified price during a specified time, subject to the tendering of a minimum number of shares (Hirshleifer, 1994).

Termination fees: The amount payable in the event that one party fails to consummate a previously agreed transaction (Officer, 2003).

Transaction multiples: See acquisition multiples.

Transaction value: The implied enterprise value of 100% of the company based on the total consideration paid in a given transaction (de Pamphilis, 2008).

Weighted average cost of capital (WACC): The cost at which a company is currently financing its operations; it comprises both the cost of debt and the cost of equity (Miles and Ezzell, 1980)

Winner's curse: Refers to the risk of a bidder to win the bidding process by acquiring the target at a price that is above the total value of the target plus the value created in the transaction (Hirshleifer, 1994).

1 Introduction

In this applied research project, the takeovers of privately held companies were studied, while specifically analysing value drivers and the manner in which they can be influenced. The research project has focused on the seller's perspective in the transaction process, with the aim of understanding how sellers extract value when divesting their holdings. In order to gain a better understanding of the value drivers in the divestment process, multiple case studies have been conducted. In collaboration with specialized advisors, five cases involving a privately held target company have been studied. A company is considered privately held, if its shares are not listed on any public stock exchange. Divestments of privately held subsidiaries by listed companies; transactions of family businesses and small and medium enterprises (SMEs); and start-up and other pre-IPO equity financings are all considered private transactions. There is extensive academic and business literature in the field of mergers and acquisitions (M&A). However, the understanding of private transactions and related valuation issues is still limited. While listed companies often receive a tender offer based on publicly available information, shareholders of privately held companies have to proactively disclose their intention to divest and provide the necessary information to interested parties.

While most potential buyers think of an acquisition as a long term strategic project, sellers adopt a short term perspective instead (Graebner and Eisenhardt, 2004). The divestment of a majority stake in a company results in a transfer of ownership and control to new, often unrelated shareholders. This is why, from a seller's perspective, optimizing the outcome of the transaction is usually limited to maximizing the consideration received for the shares sold. Therefore, the first topic addressed in the literature review is the manner in which acquisition targets are valued and identifying the factors that determine the price paid in a transaction. A chapter is then dedicated to literature on the topic of private enterprise discount, being the valuation topic with the greatest relevance for privately held companies. The valuation of privately held companies has its particular challenges, and the relative price differences between listed and privately held companies can best be measured by studying takeover transactions (Officer, 2007). In this study, data from a sample of transactions in which a professional M&A advisor has been hired will be collected. The role of the advisor is to lead the divestment process and manage the disclosure of information to potential buyers. In some cases, the advisor is only hired after the company has been approached. However, even then, an auction-like divestment process can still be

implemented. Typically, the tasks of the advisor consists of (1) preparing the necessary company information and drawing up a list of potential buyers, (2) the first confidential contact and controlled distribution of information, and (3) organizing indicative and binding bidding rounds (Hansen, 2001). For a better understanding of the deal dynamics, each step of the transaction process has to be examined from the sell-side and the buy-side perspective. Therefore, literature related to the takeover and divestment process has been reviewed. In the divestment process, sellers try to create a bidding competition that results in an auction-like situation. A chapter summarizes previous literature on corporate divestments and the bidding process using auction theory. Bidders are recommended to have a systematic approach in the valuation (Damodaran, 2003) and acquisition approach (de Pamphilis, 2008). As implied by their definition, privately held companies do not have a quoted stock price. There is only an actual reference point for the market value of privately held companies when a major divestment occurs. Specialized financial investors,¹ such as private equity firms, try to benefit from market inefficiencies while contributing to the improved liquidity of the private segment of the M&A market. Previous literature on the private equity industry relevant to the applied research project has been reviewed and summarized in a separate chapter.

Previous literature barely addresses the price optimization question from the seller's perspective. Contributing to the knowledge base, the aim of this research project is to understand the factors which determine the value extracted by sellers when divesting a privately held target and how these success factors can be optimized. M&A advisors that are hired by the owners of privately held companies in order to create a market for their illiquid asset have been invited to participate in a survey-based study and the multiple case studies. Unlike firm and market characteristics, other value drivers can be steered within the divestment process. The main elements to be studied in order to answer the research question have been drawn from previous literature and have been verified through an initial questionnaire sent out to a larger sample of M&A advisors. Multiple case studies were conducted, involving M&A advisors and their clients in the process of divesting a privately held company. Three structured interviews were held with each participating M&A advisor along the major phases of the divestment process, while their clients answered the equivalent set of questions through anonymous questionnaires. The results were supported by

¹ In this document, private equity funds, private equity firms, and financial investors all refer to an investor or potential buyer without operations and a purely financial interest in a possible transaction

evidence in the form of deal and process documentation. Within case analysis and cross case analysis have been conducted in order to study the rich set of qualitative and quantitative data. Content analysis has been used for triangulation purposes, common elements have been established and differences explained. This systematic qualitative discussion is considered to be the most appropriate methodology to obtain a better understanding of how the divestment price of a privately held company can be maximized. From the multiple case studies, the best possible practice as regards the optimization of each of the key success factors has been derived, and the research question has been answered. However, a larger sample needs to be studied, in order to generalize findings to a wider population. This is why further research needs to be conducted based on the theory developed.

2 Literature review

2.1 Introduction to the literature review

The structure of this literature review includes the five topics that are most important to the research project. As there is extensive literature on M&A transactions, for general information on the research field, only selected previous studies are included. In chapter 2.2, it will be explained how the theoretical fair stand-alone value of a target company can be estimated, what drivers determine the transaction value paid, how economic value can be created in a takeover and, finally, how the net value created is distributed between the parties involved in the transaction. Chapter 2.3 addresses the private enterprise discount and explains how it is measured in a takeover transaction. Chapter 2.4 describes the divestment process, with an emphasis on the seller's perspective on different strategies and participants. In chapter 2.5, extant knowledge in the field of auction theory is considered in the context of mergers and acquisitions, explaining how the divestment price can be optimized for a privately held target. Chapter 2.6 is dedicated to private equity investments and the role that specialized financial investors can play in the type of transactions analysed in this study. The last literature review chapter presents a synthesis of the most important lessons learned from the existing knowledge base.

For some theories important for divestments and related valuation issues, only evidence from listed companies is available. If not otherwise stated, samples used in previous literature always include both, publicly listed and privately held companies. In the case of privately held companies, the

seller often initiates a transaction; however, for the purpose of this review, the terms commonly used in academic and business literature are retained. The terms ‘target’ and ‘target company’ describe the company that is, or can be, sold in a transaction, whereas the terms ‘bidder’, ‘bidding company’, or ‘acquirer’ refer to the company potentially purchasing the majority of the shares of the target company. The shareholders of the target company are collectively referred to as the seller. The company’s management will typically act as their agents, and a perfect alignment of interests is assumed, ignoring all agency problems (unless otherwise stated). The terms ‘premium’ and ‘discount’ refer to the relative difference between the transaction value paid compared to the stand-alone value of the target company, the price per share paid compared to the stock price quoted before the announcement of the transaction, or a proportional difference in transaction multiples between the target company and comparable (public) companies recently sold.

2.2 Takeover valuation

2.2.1 Introduction to takeover valuation

When discussing a takeover, the price per stock or the total amount paid in a transaction is often the main reference used to describe the value of the target. De Pamphilis (2008) uses the MCI takeover by Verizon Communication in 2005 as an example to illustrate that a closer look is often necessary in order to assess the transaction value paid. In the case of MCI, a special dividend of USD 1.4 billion was paid just before the transaction. Therefore, non-operating assets were transferred out of the target company in order to reduce the total consideration to be paid by the acquirer. In this case, an alternative transaction structure with the same result would have involved selling the company with its extra cash. Although in such a case, the stock price paid is higher, the cash received by target shareholders is essentially the same. In academic and business literature, a frequently used method of studying the financial consequences of a corporate transaction is by examining the stock price before and after the announcement date. Under the assumption of an efficient market, the stock price movement can reveal key amounts such as the premium paid over the target’s stand-alone market value and the value created in a transaction. As for privately held companies, there are no price quotes available; therefore, their value is estimated as the risk adjusted present value of future income flows (earnings or cash flow).

2.2.2 Fundamental analysis of the acquisition

In M&A transactions, the price paid depends not only on the stand-alone value of the target company but also on the acquisition premium (or potentially the discount) that the acquirer offers. The price paid in the transaction is the sum of the two components, which are sometimes difficult to separate. The stand-alone value of a company, being its intrinsic value to its existing shareholders, can be estimated based on the company's potential to generate future earnings at its marginal cost of capital (Damodaran, 2003). In turn, the acquisition premium depends on the benefits of control that the bidder expects to generate (Hanouna, Sarin, and Shapiro, 2001). These benefits from majority ownership include the possibility to define the dividend policy as well as the financing structure and investment strategy of the company. In contrast to minority shareholders, the controlling shareholder can make certain decisions as regards the company's strategy to create value and the potential distribution of the proceeds. This explains why the acquiring party is willing to pay the so-called control premium.

However, the actual control premium does not consider synergies that certain transactions can create (Damodaran, 2003). The maximum price which each bidder is willing to pay is based on the post-acquisition value of a target, which considers potential synergies and opportunity costs. The synergy potential is different for every bidder and has to be realized by increasing the cash flows as compared to the estimates of the target company before the transaction. Alternatively, a bidder can create additional value by reducing the cost of capital of the target company after the transaction. Damodaran (2003) proposes a four-step process in evaluating acquisitions: (1) specify the reasons for the acquisitions, (2) choose a target firm whose characteristics make it the best candidate, (3) estimate the target firm's stand-alone value and the value of potential synergies, and (4) examine how much the acquiring firm should consider paying and choose the payment method and structure. The bidder can expect to deal with major challenges in producing a precise valuation and bargaining over the surplus created in the transaction; however, the approach could be helpful in structuring the decision making process.

The discount rate is the most important single input figure in earnings and cash flow based valuation models, and if it is not correctly estimated, the present enterprise value may be inaccurate even if the projected earnings or cash flows prove to be correct in the future (Damodaran, 2006). Most bidders use simple estimates of the value of a target. Survey data show that a vast majority

of firms use their own weighted average cost of capital (WACC) to value their acquisition targets (Mukherjee, Kiymaz, and Baker, 2004). This method assumes that the target benefits from a lower cost of debt after its acquisition by a larger company. However, it has been established in valuation theory that the specific risk of the target company should be reflected in the discount rate estimate when preparing a bid for a potential acquisition (Damodaran, 2003; de Pamphilis, 2008). The cost of equity may particularly vary significantly between the bidder and target, depending on the particular business model of each company. In addition, empirical evidence suggests that the bidder's WACC is not an adequate discount rate to be applied in acquisition target valuation. Performing an analysis on the time series of discount rates for each acquiring firm before and after a successful merger, Harris (2011) finds empirical evidence that a discontinuity exists at the time of the merger. These findings are highly relevant to this study, as the post-acquisition cost of capital is one of the main drivers for the maximum price a particular bidder is able to offer. Particularly, financial investors who do not have operational synergies with the target company are only able to make a competitive bid because of capital cost optimization.

The above findings and comments are pertinent to the research project as they help in estimating the minimum and maximum consideration possible from a divestment. If the stand-alone value is correctly estimated by including the company's full potential and all related risks, it would be unreasonable to accept an offer below that price. However, the maximum price that can be achieved in a transaction depends on the potential synergies with the acquirer.

2.2.3 Value creation in takeovers

According to Berk and DeMarzo (2006), potential synergies are by far the bidders' most common justification for the offered premiums. These synergies are expected to generate a reduction in cost or an increase in revenues. From a market strategic point of view, synergies affecting revenues or costs can both consist of economies of scale or scope in the area of production or sales. In addition, vertical integration or the indirect acquisition of expertise or technology can result in synergies. It is worth mentioning that synergies are difficult to achieve and buyers end up overpaying for an acquisition if they do not discount their valuation correctly for the probability of not realizing potential synergies. As also mentioned by Berk and DeMarzo (2006), an acquisitions is not always the most efficient way of moving up and down the value chain or for gaining a competitive edge. In a study on management strategy, Barney (1988) argues for his theory that bidding firm

shareholders will experience abnormal returns only when bidding firms enjoy uniquely valuable synergistic cash flows with targets that are private, inimitable, or unexpected.² This is in line with the property rights theory, which predicts that complementarities make integration more likely and, conversely, that independent assets should be owned separately (Hart, 1995).

An above-average increase of share price is frequently used to determine whether a transaction creates value for the shareholder. Consensus in existing literature is that takeovers generally create economic value as the combined abnormal return to the target and bidder shareholders are significantly positive. Studying a sample of listed targets, Andrade, Mitchell, and Stafford (2001) find that the combined abnormal return averages for completed mergers are 1.8% for a window of 3 days, and 1.9% for a window of 20 days, which are statistically significant. The theory of creation of economic value through acquisitions is supported by Bhagat, Dong, Hirshleifer, and Noah (2005), who find that the acquisition of a smaller target by a large bidder generally creates a smaller value improvement than combinations of similar-sized firms. Although this study only captures the market valuation at the announcement date, its finding implies that the magnitude of synergies determines the impact on combined enterprise value, with the additional assumption being that the magnitude of synergies is relative to the firm size.

In previous academic literature, different motivations for takeover transactions are described and the likelihood of success for different rationales is assessed. Berk and DeMarzo (2006) report that managers frequently cite the benefits of diversification as the motivation for takeover transactions. These benefits can include risk reduction, increased debt capacity at lower cost, and liquidity enhancement. However, empirical evidence shows that the benefits of diversification at a company level are offset by other drawbacks and that, in the long run, most large diversification transactions fail. Berger and Ofek (1996) find that more than half of all diversification mergers that occurred during the 1960s' were broken up by bust-up takeovers by the end of the 1980s. They also report that the diversification mergers later broken up create value destruction of between -22% and -33% at the time of the transaction, whereas companies merging successfully experience a change of between 6% and -3% in their combined value. They also report that, in almost all cases (more than 90%), the diversified target is taken over through a leveraged buyout or by a group from the same industry, focusing on its core business. By measuring combined abnormal returns,

² Abnormal returns being measured by the share price movement relative to industry peers, around the announcement date of the acquisition

Maquieira, Megginson, and Nail (1998) find that conglomerate mergers did not create any value in pure stock-for-stock mergers between 1963 and 1996, but non-conglomerate mergers did.

In a global market context, diversification has become a less common driver for takeover transactions, and mega mergers are more common within the same industry, but with the objective of benefiting from each other's strong presence in particular regional markets (de Pamphilis, 2008). Berk and DeMarzo (2006) also mention a few non-strategic motivations for takeovers—some bidders acquire a company with operating losses for tax benefits, or seek to improve their earnings per share through a stock issuance financed takeover of a target with lower earnings multiples. The academic literature has been able to identify some generalizable factors determining the value creation in takeovers. It seems obvious that managers that look at potential transactions on a case-by-case basis only enter into a takeover transaction if they believe that it has a positive impact on their shareholders' wealth or at least on their own wealth. The hubris hypothesis of corporate takeovers states that bidding managers may convince themselves that his valuation is accurate and that the market does not reflect the full economic value of the combined firm (Roll, 1986; Holmstrom and Kaplan, 2001). Company managers are over-optimistic about their ability to add value to a new company. Hubris on the part of individual decision makers in bidding firms can explain overbidding and the winner's curse. However, since we observe mainly those public companies that consummate deals, we are likely to observe a disproportionate number of over-optimistic CEOs.

Although the above findings are mainly drawn from the analysis of takeovers of listed targets, they are pertinent to the research project as they demonstrate how economic value can be created in a takeover transaction and how such value creation is measurable at the target and bidder level.

2.2.4 Distribution of the created value

Using the measure of abnormal returns, it has been established that takeovers generally create economic value. However, another question arises as to how the economic value is distributed between the target and the bidder shareholder. Extant studies provide evidence of significant and positive abnormal returns to targets and insignificant abnormal returns to the bidders at deal announcement, suggesting that sellers extract value from the acquirer. Analysing a sample of 4,256 deals involving US listed companies between 1973 and 1998, Andrade, Mitchell, and Stafford (2001) find that an average premium of 38% over the pre-merger price is paid, and that the target

experiences a significant 16% three-day average abnormal return around the announcement date, whereas the acquirer's average abnormal return is insignificant. In most developed markets, the law requires that fair value is paid to shareholders forced to sell their holdings, and it can be observed that companies are rarely acquired at a lower price than their current market value. Berk and DeMarzo (2006) report that, in practice, most acquirers pay a substantial acquisition premium over the pre-merger market value of the target company.

It could be surmised that takeovers are an inefficient growth strategy, as shareholder returns generally remain unaffected. However, Andrade, Mitchell, and Stafford (2001) argue that the correct economic interpretation of zero bidder abnormal returns is that, under a competitive environment, they can expect fair returns on their investment that are comparable to returns on other investment projects. They conclude that strategic acquisitions are generally as good as alternative growth strategies and that bidding companies compete for an acquisition as long as it creates more or same value than organic growth. However, as discussed on the chapter on auction of companies, the acquirer can win a bidding contest paying the second highest private price. Therefore, if one bidder has significantly higher synergies than all the others do, it can absorb part of the created value even in a competitive bidding process. Empirical evidence shows that it is not only the takeover transaction itself that affects abnormal returns around the announcement date, but also the fact that many companies issue shares in order to finance an acquisition. Andrade, Mitchell, and Stafford (2001) further report that bidders using at least some stock to finance their acquisition have reliably negative three-day average abnormal returns of -1.5%, while acquirers that abstain from equity financing have average abnormal returns of 0.4%, which are indistinguishable from zero. It can be concluded that it is not necessarily the acquisition, but the equity issue and the resulting dilution of existing shareholders that are perceived as a negative signal by financial markets. This is consistent with the negative abnormal returns of around -2% to -3% of equity issue announcements, reported by Myers and Majluf (1984) in their empirical study on a sample of US companies.

The existing literature includes many studies aiming to find additional drivers and the most significant determinant factors for value creation and distribution. Looking at shareholder returns for firms that acquired five or more targets within a three-year time window, Fuller, Netter, and Stegemoller (2002) find evidence that bidder shareholders gain when buying a private firm or

subsidiary but lose when purchasing a public firm. Independently, using a large sample of privately held UK targets between 1981 and 2001, Draper and Paudyal (2006) find that the takeovers of privately held companies generate an abnormal risk adjusted return to the listed UK acquirers. They report that acquirers with a 'low relative size ratio'³ earn significantly higher excess returns and, even if bidders for private firms gain significantly positive excess returns for cash deals, the largest excess returns are achieved when paying with shares. These findings and further evidence from the French market (Eckbo and Langohr, 1989) seem to be inconsistent with the previously discussed evidence for negative abnormal returns at the announcement of an equity issue (Myers and Majluf, 1984). However, it can also be concluded that additional factors, such as a new important block of shareholders in the bidder company after the transaction, should be considered. There is empirical evidence that companies with higher concentration in shareholding have better control and make better investment decisions (Moeller, Schlingemann, and Stulz, 2004).

Acknowledging the limitations of research methods commonly used in takeover studies, Bhagat, Dong, Hirshleifer, and Noah (2005) comment on two major challenges of abnormal return measurement in takeovers: (1) The truncation dilemma, meaning that a short event window does not capture the full value effect and a long event window introduces greater noise and benchmark errors, (2) The revelation bias, referring to the fact that the bidder's return on the announcement date reflects not just news about the value to be derived from a combination, but also news about the stand-alone value of the bidder. Applying an abnormal return calculation and two new methods addressing the truncation dilemma and bidder revelation bias, to a sample of tender offers between 1962 and 2001, they find that value improvements are much larger than traditional methods indicate. Abnormal returns can be used to analyse the effects of regulatory changes on value creation and distribution, considering differences in the timing, sector, place, synergies, and process of takeovers. The Sarbanes-Oxley Act of 2002 (SOX) was the last significant change to US securities law. Consequently, the due diligence process has become more rigorous and is now being consummated more slowly (DiGabriele, 2007). However, to date, no studies regarding the effect of SOX on value creation and acquisition premiums in takeover transactions in general have been published. Although the results of studies on mergers and acquisitions are almost as different as the variety of data samples analysed, almost all researchers report that target shareholders absorb

³ In their study, Draper and Paudyal (2006) calculate a relative size ratio by dividing the bidder's market capitalisation 10 days prior to the announcement day by the value of the announced deal

a larger portion of the economic value created in a takeover. Berk and DeMarzo (2007) conclude that target shareholders negotiate the divestment price based on expected benefits from the target's synergies with a bidder and, most likely, a majority of transactions is executed in a competitive environment. The main drivers for the competitiveness and distribution of economic value in a transaction are liquidity and the depth of the takeover market. Chari, Ouimet, and Tesar (2004) find that US bidders have higher abnormal returns when acquiring emerging market targets than when acquiring domestic targets.

The above findings and comments are pertinent to the research project as they demonstrate how the economic value created in a takeover is distributed between the target and bidder. The determinant factors of value distribution in the divestment of privately held companies need to be analysed in order to answer the research question. Table 1 summarizes the most important studies with regard to cumulative abnormal returns in acquisitions of privately held targets.

Table 1 Abnormal returns in acquisitions of privately held targets

Author(s) (year of publication)	Sample description	Time period	Methods	Results
Ang and Kohers (2001)	2,505 US private transactions reported on Thomson Reuters' SDC Platinum deal database	1984 to 1996	Cumulative abnormal returns (CAR) for a period of 2 days (announcement date + 1 day)	CAR 1.32% for stock offers and 1.83% for cash offers, both significant at a 0.01 level
Chang (1998)	281 US private transactions reported by Dow Jones News Retrieval.	1988 to 1992	Cumulative abnormal returns (CAR) for a period of 2 days (announcement date + 1 day)	CAR 0.89% for stock offers significant at a 0.01 level, no significant CAR for cash offers
Draper and Paudyal (2006)	7,499 UK private transactions reported on Thomson Reuters' SDC Platinum deal database	1981 to 2001	Cumulative abnormal returns (CAR) for a period of 3 days (day -1 to +1) around announcement date	0.81% (1.49% for stock offers and if the bidder is relatively small as compared to the target) significant at a 0.05 level
Faccio, McConnell, and Stolin (2004)	3,694 Western European private transactions reported on Thomson Reuters' SDC Platinum deal database	1996 to 2001	Cumulative abnormal returns (CAR) for a period of 5 days (day -2 to +2) around announcement date	CAR 1.48% (2.44% if paying with stock) significant at a 0.05 level
Fuller, Netter, and Stegemoller (2002)	Sample of 3,135 acquisitions by bidders with 5 or more acquisitions within 3 years (on SDC)	1990 to 2000	Cumulative abnormal returns (CAR) for a period of 5 days (day -2 to +2) around announcement date	CAR 2.08% for private targets (2.43% for stock offers) significant at a 0.05 level
Lys and Yehuda (2011)	1,152 US private transactions reported on Thomson Reuters' SDC Platinum deal database	2002 to 2006	Cumulative abnormal returns (CAR) for a period of 5 days before announcement date to 1 day after closing	No significant CAR due to the longer period for CAR calculation (not a main research objective)
Kohers (2004)	3,727 US private transactions reported	1984 to 1997	Cumulative abnormal returns (CAR) for a period	CAR 1.05% for cash offers, 0.92% for stock

	on Thomson Reuters' SDC Platinum deal database		of 2 days (announcement date + 1 day)	offers, and 2.07% for mixed offers, all significant at a 0.01 level
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2.2.5 Conclusions on takeover valuation

In conclusion, the takeover valuation should be based on a fundamental analysis of the target company, always considering the substantial risk of overestimating potential synergies. Despite the well-established theoretical foundation and various empirical studies, no simplified approach can replace the detailed estimation of future earnings and corresponding cost of capital. There is a consensus in existing literature that takeovers generally create value if sound strategic considerations are the main drivers of the transactions. However, the distribution of the created value clearly depends on multiple factors, and none of the existing economic models seem to fully explain them. In the case of listed company takeovers, sellers are generally able to extract the full value of the company from buyers, so that the premium over the existing value generated in the sale accrues to the seller. As value creation and distribution are driven by various market and business related factors, an issue pertinent to this study is how these factors affect the consideration received in the divestment of a privately held company.

2.3 Private enterprise discount

2.3.1 Introduction to the private enterprise discount

Greene (2005), in her newspaper article, discusses the case of the Hall family that, after a lifetime of being entrepreneurs in Christchurch, New Zealand, faces the challenge of estimating the value of their company for financial planning purposes. The author names three methods commonly used in valuing a business: earnings based, asset based and market based. A fair market approach based on industry experience and comparable sales may well be the most accurate indicator of value. However, irrespective of any valuation method, the only true value is based on what the marketplace will pay and the final price per share agreed between a willing buyer and a willing seller. Business owners know that finding a buyer for the shares of an unlisted company is significantly more difficult and is only possible at a relatively low price. The price difference between a privately held enterprise and a comparable listed company is generally referred to as the private enterprise discount or private company discount (Koeplin, Sarin, and Shapiro, 2000). The estimation of this private enterprise discount, in practice, is rather difficult, as the shares of privately held companies do not have market-quoted prices. By comparing the acquisition

multiples of comparable transactions, the private enterprise discount can be estimated, unless there is a significant difference in the potential synergies and control premium from one transaction to the other.

2.3.2 Measurable price differences

In the absence of market data, a fundamental analysis can help to estimate the value of a privately held company. As mentioned in the previous chapter, the value of a company can be estimated based on its potential to generate future earnings at its marginal cost of capital (Damodaran, 2003). However, the use of fundamental analysis raises certain unsettled issues, including the estimated earnings and applicable discount rate to be used to value private companies. For listed companies, discount rates are usually estimated based on historic market data, but for privately held companies, this market data is not available. Damodaran (2003) comments that the market data of comparable listed companies can be used in order to estimate the discount rate applicable to a private enterprise, and states that adjustments for the lack of marketability of the asset need to be made. Koeplin, Sarin, and Shapiro (2000) discuss different approaches to measuring the private enterprise discount and conclude that an estimation based on market data is more reliable than a fundamental analysis based on theoretical concepts. While share price information is available for companies listed on a stock exchange, estimates of the market value of privately held companies are usually only available when major divestments occur.

The acquisitions of private targets represent more than 80% of all takeover transactions (Draper and Paudyal, 2006). However, existing knowledge regarding the takeover valuation of privately held targets is limited. In the existing literature, the average earnings multiples paid in comparable acquisitions are computed in order to study the relative valuation paid for a company (Kaplan and Ruback, 1995). Using this acquisition multiple method, Officer (2007) finds that the observable private enterprise discounts in takeover transactions range from 15 to 30%, with a tendency to be bigger if the seller is under more pressure to sell. As the need to sell quickly results in a lower transaction value, he concludes that the private enterprise discount is an actual illiquidity discount. Looking at different asset classes and testing different ways of incorporating illiquidity into value, Damodaran (2003) finds empirical evidence that liquidity significantly affects the value of an asset. The magnitude of these adjustments is driven by transaction costs, including the opportunity cost. Damodaran (2003) states: ‘Trading costs associated with buying and selling a private

business can range from substantial to prohibitive'. He concludes that investors are generally willing to pay higher prices for more liquid assets than for otherwise similar liquid assets and comments that the illiquidity discount can be described as a function of transaction cost, varying with the risk of an asset and overall liquidity of the market. In their empirical study, Schlingemann, Stulz, and Walkling (2002) report that firms with subsidiaries in industries which are more liquid are more likely to divest these subsidiaries, and they provide evidence that segment liquidity helps explain which segment is retained or divested by a divesting firm. The conclusions drawn from the above studies do not explain why the illiquidity of the target shares should matter in a takeover, since the target company will be integrated into the acquirer's structure in most transactions.

The above findings and comments are pertinent to this research project as they help estimate the value of a privately held enterprise, considering an illiquidity discount in a stand-alone valuation. However, the discounts applied in the takeovers of privately held enterprises relative to a comparable public target company and its drivers need to be studied in greater detail.

2.3.3 Takeovers of privately held targets

It seems important that the lower relative valuations paid for privately held targets are studied in the context of takeover valuation and its process. Although the illiquidity discount for privately held companies seems to be the main driver of the lower valuations, it is difficult to precisely measure the portion of the private enterprise discount that can be attributed to the lack of liquidity. Not only is it difficult to distinguish the illiquidity discount from other discounts (e.g. size, country, and oversupply), but multiples analysed also include premiums for control and potential outperformance. Koeplin, Sarin, and Shapiro (2000) report that US private companies are acquired at an average 20–30% discount relative to similar public companies, when using earnings multiples as the basis for valuing the transactions. Non-US private companies are acquired at an average discount of 40–50% relative to similar public companies. Studying the mergers and acquisitions activity in the insurance industry, Qingzhong and Ukhov (2011) find that, on average, the valuation multiples are 45% lower for private acquisition targets, relative to public firms.

In the existing literature, it is agreed that there is a discount applied in the takeovers of privately held enterprises. Besides the lack of liquidity, the determinant factors of this discount mentioned are lack of transparency and insufficient minority shareholder protection in privately held companies. De Franco, Gaviious, Richardson, and Jin (2009) observe a decrease in enterprise value

for small and medium enterprises not hiring one of the leading four audit companies (Big4), and conclude that the private enterprise discount can be explained by a lack of information quality facing the buyer rather than an illiquidity discount. Conducting an event study on the private enterprise discount, DiGabriele (2007) reports that, in the United States, the relative private enterprise discounts increased after the Sarbanes-Oxley Act. He comments that unreliable information causes acquirers to bid less for privately held targets. Further, it can also be concluded that illiquidity increases as the quality of the information available worsens, since the cost of the due diligence becomes higher and the time to closing becomes longer.

In many transactions including a privately held target, earn-out payments are used in order to bridge the information and price gaps. Studying 990 transactions where earn-out payments were agreed upon, Cain, Denis, and Denis (2006) report that their sample targets were almost exclusively private firms or subsidiaries of public firms. They confirm the view that the benefits of earn-outs exceed the costs primarily when there is larger uncertainty about the value of the target, and suggest that earn-outs can be used in order to give target managers the incentive to remain with the combined firm and to take actions that maximize the value of the combined entity. These findings suggest that an appropriate payment structure for the acquisition can align the interests of the buyer and seller. Von Werra (2014) comments that the deferred and conditional payments which are used to overcome differences in perceptions of value can be binary or proportional to future earnings, with or without limitation. The objective of the earn-out payments is to ensure the realization of a certain value after the completion of the transaction while reducing transaction risk due to information asymmetries. The lack of reporting and audit regulation is particularly problematic for the minority shareholders of private companies, as the private majority owners, under certain circumstances, can unilaterally benefit from control. Studying the private benefits of control in 39 countries on a sample of 412 public transactions, Dyck and Zingales (2004) find that the value of the control ranges between -4% and $+65\%$, with an average of 14% . This is also consistent with the theory that in countries where the private benefits of control are larger, capital markets are less developed, ownership is more concentrated, and privatizations are less likely to take place as public offerings.

The above findings and comments are pertinent to this research project, as factors influencing the magnitude of the private enterprise discount applied in a transaction have been identified. Further,

the mechanism of earn-out payments serves as an example of how to overcome a valuation gap, in this case due to informational asymmetries in an inefficient market.

2.3.4 Are privately held enterprises cheaper?

There is empirical evidence that, on average, nearly 100% of the economic value added in transactions involving the takeovers of listed targets is included in the acquisition premium. However, in divestments of privately held enterprises, target shareholders seem to be leaving some of the value created on the table. Studying abnormal returns around the announcement dates of firms that make many acquisitions, Fuller, Netter, and Stegemoller (2002) find empirical evidence that the listing status of the target firm significantly affects the returns to bidders, and that bidders' abnormal returns are positive when acquiring a privately held target. Cumulative abnormal returns (CARs) for a period of five days are found to be significantly negative (-1.00%) for public targets, significantly positive (2.08%) for private targets, and significantly positive (2.75%) for subsidiaries. In contrast to the acquisitions of public entities, the CARs reported are positive and significant for the private target sample regardless of the method of payment used: cash (1.62%), common stock (2.43%), or their combination (2.48%). Faccio, McConnell, and Stolin (2004) examine the announcement period abnormal returns to acquirers of listed and unlisted targets in Western Europe. They report that the acquirers of listed targets earn an insignificant average abnormal return of -0.38%, while the acquirers of unlisted targets earn a significant average abnormal return of 1.48%. In the US market, the gains to bidders in private target takeovers well exceed the gains to bidders in public target deals, even after controlling for the method of payment, size-related factors, and potential agency problems related to the bidder's ownership structure (Ang and Kohers, 2001; Kohers, 2004). Table 1 summarizes the findings of quoted abnormal return studies regarding the acquisitions of privately held targets.

No newer studies could be found, which might be because such studies would not be easily published unless they add to the existing knowledge base with additional conclusions. However, there is also empirical evidence challenging the fact that higher abnormal returns can be fully explained by the listing status of the target. In their study, Moeller, Schlingemann, and Stulz (2004) compare a sample of privately held acquisitions and a control group with listed targets, reporting that the announcement return for acquiring-firm shareholders is approximately two percentage points higher for small acquirers within both groups. Chang (1998), studying a very small sample

of completed US transactions, reports that bidders offering common stock for a private target generally experience a positive abnormal return, and bidders offering cash experience a zero abnormal return. He further reports that bidding firm returns in stock offers are positively correlated with the presence of a new block of shareholders from the target and the amount of common stock issued to target shareholders. He concludes that his findings are consistent with the view that large shareholders are effective monitors of managerial performance and enhance the takeover prospects of the firm (Demsetz and Lehn, 1985). This suggests that, in such cases, divesting shareholders obtain a strategic participation in the target company after the transaction. Empirical evidence is contradictory when it comes to isolating the determinant factors of abnormal returns to bidder shareholders. However, there is consensus on the fact that part of the private enterprise discount can be explained by the shareholding structure. A typical ownership structure, especially in privately held companies, involves an important block holding by a family controlling the business over several generations. Although family firms play a vital role in the world economy, this sector has received relatively little attention. However, there is empirical evidence that a reduced agency problem increases the value of a firm (Villalonga and Amit, 2004). The interests of company ownership and leadership are best aligned where the majority shareholders manage the company, which is often the case in family companies. Private companies seem to be less tempted to use acquisitions in order to achieve short term growth targets and their behaviour is less dependent on the macroeconomic cycle. Maksimovic, Phillips, and Yang (2009) examine the participation of public and private companies in merger waves and their outcomes, documenting that public bidders participate more frequently in mergers than private bidders, and are more cyclical in their acquisition decisions. They find that public companies' acquisition decisions are also more heavily impacted by macro factors including credit spreads and industry returns.

Further, and in contrast with the private enterprise discount, Ang and Kohers (2001) find evidence that in the US market, price-to-book multiples paid are higher than for comparable publicly held targets. They explain their results by proposing that private ownership leads to superior bargaining power, suggesting that the takeovers of privately held targets create superior total value, as acquirer gains do not appear to occur at the expense of private target gains. It needs to be mentioned that their study does not address the possibility that these relatively higher multiples are due to differences in accounting standards applicable to companies not listed on a major stock exchange

(DiGabriele, 2007). Similarly, Lys and Yehuda (2011) report that the premium over the stand-alone value paid for privately held targets is generally higher, but is more than offset by higher synergies. They conclude that private enterprises are better buys, even if the variance in synergies is higher for privately held targets compared to their listed peers. However, in their study, accounting differences could have influenced the results, as the stand-alone value was estimated to be the net asset value disclosed by the bidder. Further, in the absence of a better understanding of how effectively an acquirer can control the release of public information, it seems that the impact on bidder returns is not a very reliable measure for the difference in the value distribution.

As discussed in the chapter on private equity investments, specialised buyers attempt to benefit from a less transparent market, where bids usually do not need to be disclosed. In their survey paper, Betton, Eckbo and Thorburn (2008) explain that the obligation to disclose a bid results in increased bidding competition and ultimately in higher acquisition premiums. Their conclusion is based on empirical evidence as for example presented by Jarrell and Bradley (1980) who report that the increased transparency in the takeover market, introduced in the United States with the Williams Act in 1968 has increased the average cash tender offer premium increased from 32% to nearly 53%. Clearly, increased transparency is making the market more efficient. Fama (1970) defines under which assumptions capital markets can be considered efficient. However, in the case of privately held companies these market assumptions do not hold as i) there are high transactions costs in trading privately held securities, (ii) information is not costlessly available to market participants, and (iii) there is no observable agreement on the implications of current information for the current price. In consequence, market prices of privately held companies are defined in an inefficient market. Takeovers of listed companies benefit from i) efficient capital markets producing a market price for the target company's equity ii) regulations assuring availability of information on the target company and the details of each bid. Takeovers of privately held targets do not have these features and in the absence of a market price and publicly available financial statements, identifying the price of a privately held target is difficult. It can even be argued that takeover activities are not to be described as a market since there is no product uniformity. Every company sold is different and in case of privately held companies, publicly available information is almost inexistent. This is why the most commonly used sales mechanism is a multi-stage auction. Specialised M&A advisors are typically hired to manage the auction, with a clear strategy when and how to inform possible bidders, as described in the chapter on the divestment process.

The above findings and comments are pertinent to the research project as they confirm the potential of optimization. Since acquirers extract more value from the takeover of a privately held enterprise than in comparable transactions involving a listed target company, the value distribution is less favourable to the seller. It has also been discussed that takeovers of the very diverse privately held targets without any obligation to publicly disclose company or transaction information, are not taking place in what could be described as an efficient market.

2.3.5 Conclusions on private enterprise discount

It can be concluded that there is a significant relative difference between the enterprise value of publicly listed and comparable privately held companies, which is reflected in the earnings multiples. This private enterprise discount can only be measured in corporate transactions where many additional factors influence the valuation paid. In spite of the existing knowledge in the field of takeover valuations, the private enterprise value can hardly be precisely estimated prior to the closing of a transaction. Whether the discount is fully explained by the particularities of the asset, such as a lack of transparency and liquidity, is highly uncertain. It seems that privately held companies are often a good buy and that their shareholders tend to leave more value on the table than the shareholders of listed peers. From a business owner's perspective, the question arises as to how the private enterprise discount can be minimized or how the transaction value can be optimized in this highly inefficient market.

2.4 Divestment process

2.4.1 Introduction to the divestment process

Mergers and acquisitions are often discussed in the press and evaluated in a strategic and operational context. However, we rarely read in detail about the process of bringing together the acquirer and seller, as the deal is kept a secret for as long as possible. The main reason for this is that, if it becomes known that the company is for sale, employees, clients, and suppliers might anticipate any undesirable effects of a change. If they start looking for new jobs or business partners, respectively, the value of the company could be negatively affected. Subramanian (2009) uses the sale of the family-owned Pittsburgh Steelers, one of the most legendary franchises in the

history of American Football, to illustrate a possible divestment approach and how delicate communication can be in an M&A deal. After a first internal buyout offer by Dan Rooney was rejected in 2007 by the other shareholders consisting of his younger brothers and their children, Goldman Sachs was brought in to find a third-party buyer. Despite the private nature of the divestment process, a broadening of the search for a buyer resulted in revelations that led to an outpouring of negative fan sentiment. It is possible that the negotiations with Dan Rooney had reached a point where a broader process was necessary to ensure that the younger brothers received an acceptable consideration. However, the more open process also put the Rooneys on the defensive and tarnished an asset that had been the crown jewel of the Pittsburgh community for decades. Unfortunately for the younger brothers, the global financial crisis erupted in the middle of Goldman's search and, in 2008, they finally sold to Dan Rooney in a deal that valued the team at \$800 million – a number at the bottom of Goldman's initial valuation range. However, Subramanian (2009) concludes that opening the divestment process added value. After having tested the market, sellers have a better understanding of the actual market value of their stake. However, further conclusions on factors such as the importance of confidentiality in the divestment process should be drawn in a more critical analysis of this particular transaction.

2.4.2 Parties involved in a divestment

Despite the fact that there are always at least two companies involved in a takeover transaction, existing literature mainly focuses on the buyer's perspective. According to Berk and DeMarzo (2006), once the target is identified, the takeover process consists of (1) the valuation, where the sum of the target's real economic value and the takeover synergies have to be estimated (see also Damodaran, 2003), (2) the offer, which mainly consists of the cash amount and/or stock exchange ratio, and (3) the approval of board of directors of both the bidder and the target company. In contrast with the general perception, resulting from media coverage on mega mergers, which are presented as a strategic decision only of the bidder, in many cases, the target company and its shareholders initiate a divestment. Graebner and Eisenhardt (2004) examine the seller's perspective in the takeover process. They find that divestments occur when sellers are pushed towards acquisitions by strategic difficulties or pulled towards acquisitions by attractive buyers with important synergies. If the target company is approached by a potential buyer, it can either examine the offer and negotiate exclusively with the bidder or initiate a sales process similar to the situation where the shareholders of the company decide to divest and proactively look for

potential buyers. If the target company is closely controlled by a majority shareholder or family, setting up a divestment process can be arranged.

Professional advisors assist shareholders in the divestment by optimizing the process based on their experience and the results from their applied research. Conducting Ernst & Young's Global corporate divestment study with a survey of 567 corporate executives, McCrostie and Driessen (2013) identify five leading practices that companies should employ to avoid leaving value on the table, and to help achieve a successful divestment: (1) conduct structured and regular portfolio management, (2) consider the full range of potential buyers, (3) articulate a compelling value and growth story for each buyer, (4) prepare rigorously for the divestment process, and (5) understand the importance of separation planning. In a simplified research approach, they ask participants to rate the degree of importance they give to each of the above and then rate the success of their divestments, defined as being characterised by: a greater likelihood of closing the deal, increased value, greater buyer confidence, greater control over the process, reduced risk of disruption to business as usual, and accelerated divestment process. Despite the very comprehensive approach of the study, the interpretation of the results is rather limited, as no relative importance is accorded to one particular success factor. The Ernst & Young study focuses exclusively on large corporates that sometimes divest a subsidiary, and the survey was conducted with management, and not the actual shareholders.

However, an important category of closely held companies and potential targets are independent businesses, often controlled by the members of one or a handful of families. Ownership succession in a family business is a typical reason to sell a company and often comes along with additional strategic motivation to combine businesses. As revealed by the results of a PricewaterhouseCoopers (PwC) family business survey, covering almost 2000 businesses worldwide, a particular hurdle for family-owned companies is succession planning. Winkeljohann and Andrew (2012) comment that a sound succession strategy is vital to a family business, as it can determine the firm's future success or lack thereof. They find that 41% of survey participants intend to pass on both the ownership and management of their business to the next generation, though more than half remained unsure whether the next generation would have the skills and enthusiasm to take over successfully. While only 17% are planning to sell or float the company, 25% intend to pass on their shares in an internal ownership succession but bring in professional

managers, thereby transferring leadership outside the family. By separating ownership from leadership, a potential governance conflict is created, as shareholders are no longer managing the company themselves, and employed executives can have unaligned incentives.

The above findings and comments are pertinent to the research project as they give an overview of the parties typically involved in the divestment of privately held companies. The target company, which can, for instance, be the subsidiary of a large corporate or a family business looking for an external succession, and potential bidders, often work with professional advisors helping them to optimize the outcome of a transaction.

2.4.3 Divestments of privately held enterprises

The vast majority of family businesses are not listed on a stock exchange, and to maximize the sale price, the divestment process of such companies has to address confidentiality issues and information asymmetries. However, competitive bidding for a private target is quite common, even if the public cannot really observe the bidding process, as information is usually held confidential. In addition, the dynamic in this completely private takeover process is different since the content of the offers is usually not disclosed to other bidders. Further, the by-laws of the shareholder agreement with regard to a divestment, and the concept of corporate governance in general, are much more focused on minority shareholder protection (Wruck, 1989). The reliability of the financial information provided is an issue in the divestment of a privately held target (DiGabriele, 2007). However, if properly addressed, information asymmetries can make privately held targets even more attractive. In a survey study with a multinational sample of listed bidders, Capron and Shen (2007) find that (1) acquiring companies choose private targets in familiar industries and turn to public targets to enter new business domains; and (2) acquirers of private targets perform better than acquirers of public targets. They then conclude that acquirers favour high information asymmetry vis-à-vis competing bidders, while preferring low information asymmetry vis-à-vis the target. A competitive advantage in the bidding process can occur if one bidder knows the target's business or niche sector better than the others do, or if the target company provides information exclusively to one potential buyer. In line with the findings on information asymmetry, is an empirical study by Reuer and Ragozzino (2007) commenting that a lack of information on private firms limits the breadth of the acquirer's search and increases its risk of not evaluating properly the assets of private targets. Makadok and Barney (2001), however, report that a lack of

information on private firms provides more opportunities for acquirers to exploit private information situations and thus gain abnormal returns from buying private targets. From a seller's perspective, this lack of market transparency, in addition to illiquidity, makes them more vulnerable when negotiating a divestment. In a survey of 251 corporates, Defren, Wirtz, and Ullrich (2012) show that there are five critical success factors to overcome the information problem, which have a significant positive effect on divestment success. Particularly, they report that the information quality of the due diligence and the credibility of communication activities have strong performance impacts.

The above findings and comments are pertinent to the research project as they highlight information dissemination as a major component in the divestment process of privately held enterprises. It has also been discussed in previous literature that resulting information asymmetries can have an influence on the outcome of the transaction. Studying the deal breakers in a large sample of announced takeovers of listed US companies, Luypaert and De Maeseneire (2014) find evidence indicating that there is a learning effect which increases the probability of a successful closing when more experienced parties are involved in the takeover process.

2.4.4 Process and price optimization

In an attempt to optimize the process and outcome of corporate transactions, most companies hire specialized advisors. Studying a large sample of US transactions, Song and Wei (2009) report that the average deal premium paid in mergers is lower if boutique advisors are used on the buy-side. Golubov et al. (2012) finds that top-tier advisors only deliver higher bidder returns, compared to their non-top-tier counterparts, in public acquisitions. They comment that this is because the advisor's reputational exposure and required skills set are larger in these transactions. From a seller's perspective, the divestment process also often begins with the selection of an investment banker or advisor to represent the target company in the transaction. In the first step, the advisor contacts potential buyers that are, based on a preliminary analysis, willing and able to complete a transaction at a price which is equal to or higher than the stand-alone value of the target company. The first contact is then made, with a very cursory description of the selling company, usually not even revealing the target's identity. Only when the interested party signs a confidentiality agreement, a more in-depth offering memorandum is provided. The offering memorandum would typically include all the information that listed companies provide in their public filings. The next

step is for the potential buyers to submit a nonbinding indicative offer. These preliminary indications on valuation and transaction structure are then used by target shareholders and their advisors to further reduce the number of bidders, before inviting them for the due diligence process. In this framework, the depth of the auction is a choice variable for the selling firm. The selling firm may conduct an auction with multiple bidders or, instead, may opt to negotiate with only a single bidder. Potential buyers obtain more extensive information. This stage of the process includes site visits and management presentations as well as a review of financial, legal, and other documents. The final step in the auction-like process is for bidders to submit sealed bids for the purchase of the company (Hansen, 2001).

In the absence of previous studies on privately held targets, empirical evidence on listed targets is considered, in order to increase the understanding of the importance of competition in takeover transactions. Hirshleifer (1994) reports that multiple bidder contests provide higher average abnormal target stock returns and lower bidder returns (close to zero). Further, more recent literature comments on the role of competition and the distribution of economic value created in the transaction, drawing similar conclusions (Berk and deMarzo, 2006; Andrade, Mitchell, and Stafford, 2001). In the case of listed companies, the main drivers for competitiveness and the distribution of economic value in a transaction are, more specifically, liquidity and depth of the takeover market, rather than the chosen process (Chari, Ouimet, and Tesar, 2004). In addition, studying a sample of public transactions, Boone and Mulherin (2007) report that the effects on target shareholders' wealth are comparable in auctions and negotiations. They conclude that in a well-developed process, the target and its investment bank can readily solicit competing bids should a negotiation founder. They find evidence that the choice of an auction or a negotiation in a particular takeover is related to the size and industry of the target as well as its affiliation with the bidding firm. What is significantly different in the case of privately held companies is that company information is not available to all potential buyers and even the mere fact that a divestment is being considered is not public information.

The above findings and comments are pertinent to the research project as they demonstrate how advisors are trying to optimize the outcome for a client by creating a competitive environment through an optimized divestment process. Even if mainly drawn from the analysis of takeovers of

listed targets, there is evidence that multiple bidder contests are more likely to maximize the price paid in a takeover.

2.4.5 Conclusions on the divestment process

In this chapter, it was established that, in general, the public does not have any information about shareholders' willingness to sell a stake in a privately held company. Therefore, a divestment process has to be initiated in order to simultaneously inform at least the group of potential buyers with the highest synergies and adequate financial strength. Besides a competitive bidding environment, reliable company information and a well-structured divestment process are clearly beneficial to the seller. However, many other questions remain unanswered, as follows. How do advisors optimize the divestment process and which factors are beyond control? What is the effect of increased transparency of company information? How can confidentiality be optimized without unnecessarily restricting the information made available to potential buyers? Is it in the best interest of the target to invite a maximum of potential buyers from all categories to the bidding process? How can differences in value perception be overcome and deal breakers be mitigated?

2.5 Auction of companies

2.5.1 Introduction to the auction of companies

Some of the different approaches used by managers and their advisors in the divestment process have been documented in selected case studies. De Pamphilis (2008) describes the sale of Gillette to Procter & Gamble in 2005 as the result of a well-planned corporate strategy, where a CEO was hired to prepare the company for the divestment. As the world famous investor Warren Buffet held an 11% equity stake in Gillette and is believed to have encouraged the divestment strategy, the business combination and synergy potential is not excessively questioned in this case study. However, especially because Warren Buffet became an important shareholder of Procter & Gamble through the transaction, it is discussed whether the transaction, exclusively negotiated with one single bidder over a long period of time, optimized the financial outcome for all of Gillette's shareholders. From this case study and other examples, the question arises whether bargaining can be adequate in a divestment or whether an auction is required in order to assure divestment price optimization. The extant literature highlights the importance of creating competition amongst potential buyers in a divestment, and describes the two-stage bidding process typical for private transactions as an auction (Hansen, 2001).

2.5.2 Auction theory in takeovers

Klemperer (1999) discusses the four basic types of auctions in a simple and well defined economic environment: (1) ascending-bid or English auction, where the price is successively raised until only one bidder remains, and the bidder with the highest private value for the offered asset will usually end up buying at a low premium over the second highest bid; (2) descending-bid or Dutch auction where the price is continuously lowered until someone accepts, and the bidder with the highest private value for the offered asset will usually call out at first, at the highest price still acceptable, in order not to pass on the opportunity; (3) first-price sealed-bid auction where each bidder independently submits a single bid, without seeing others' bids, and the object is sold at the highest price offered; and (4) second-price sealed-bid auction (sometimes referred to as the Vickrey auction) where each bidder independently submits a single bid, without seeing others' bids, and the object is sold at the second highest price offered. Considering the outcome under the above-mentioned assumptions, descending and first-price sealed-bid auctions are completely equivalent in single-unit auctions, and ascending and second-price sealed-bid auctions are also equivalent under many circumstances. However, certain pieces of evidence have raised robust empirical challenges to the auction theories applied in the takeover transaction process.

Studying the acquisitions of listed targets, Hirshleifer (1994) challenges the traditional solution to the English auctions model (Klemperer, 1999), with evidence that takeover bidding occurs by small numbers of enormous jumps, rather than many small bid increments. He suggests that the English auction model has to be adjusted for bid cost, which implies that a bidder withdraws from the auction as soon as he knows that he will not win. Evidence found by Jennings and Mazzeo (1993) supports this challenge, as the majority of initial bid premiums were over 20% of the market value of the target 10 days prior to the offer. Another challenge mentioned by Hirshleifer (1994) is the often puzzlingly low ownership in target firms accumulated by bidders prior to making a takeover bid. Kyle and Vila (1991) point out that if the possibility of a takeover is foreseen, then a potential bidder can profit by either buying shares secretly before making a takeover bid or selling shares short and not making a bid. However, Bradley, Desai, and Kim (1983) find evidence that the majority of tender offer bidders own no target shares.

As discussed in the previous sections, it is common practice in a divestment to approach several bidders in order to create competition. Klemperer (1999) states that the resulting competitive

bidding process or takeover battle can be described as a form of auction. He analyses auction theory's basic model of a fixed set of symmetric, risk neutral bidders with independent information, who bid independently for a single object. Even when these assumptions have to be relaxed, the general concepts of auction theory are applicable to takeover transactions. Considering potential synergies resulting from a takeover transaction, the concept of private value, where the value of the object can be different to each bidder, is applicable rather than the concept of common value, where the actual value is the same for everyone. Eckbo (2009) describes the takeover bidding where the bidder faces a single seller in the form of a large target shareholder or a target management in a competitive auction. He comments that the target's board of directors has a fiduciary obligation to accept the highest offer in a takeover. Another theoretical basis that could be applied to this situation is Nash's model of bargaining, also suggesting that the seller should be able to extract a very large surplus because it has the advantage of being able to find alternative buyers (Nash, 1950).

Even if mainly drawn from auction theory and the analysis of takeovers of listed targets, the above findings and comments are pertinent to the research project as they discuss how auction theory can be used to understand the bidding and negotiation process in takeovers.

2.5.3 Target information asymmetries

An important mechanism in auctions is signalling. There exists an initial bid that deters the second bidder from paying the investigation cost and entering the auction. The high initial (all-cash) bid signals that the initial bidder has a relatively high private valuation for the target, which reduces rival bidders' expected value of winning. For a sufficiently large investigation cost, the expected value is negative and the rival does not enter. Dodonova (2008) discuss whether initial bids in takeover auctions are usually placed well above the current stock price because of the bidder's intention to signal his high interest in the target firm or if there is an alternative explanation for the existence of jump bidding in takeovers. They formulate the theory that that even if a high bid can deter potential competition, as entering the bidding process requires certain resources that can be viewed as entry costs, the real reason for that observation is that target firms would reject offers that are only slightly above the current stock price and bidders anticipate this behaviour. However, if the signal is strong enough for competitors not to enter the auction, the initial bidders' profits after the takeover might actually be higher than if they make a lower bid. Signalling incentives can

develop in any situation in which bidders benefit from uninformed outsiders perceiving high values after the takeover. This applies to acquisitions that are financed with a debt or equity issue, which can be realized at a lower cost of capital if the acquisition is perceived as a transaction that creates value (Liu, 2008). Further, a combination of game theory with decision analysis could be of particular interest when studying the bidding behaviour in a private takeover process. Cobb and Choudhary (2009) comment that in many cases, the optimal strategy for each player can be obtained by rolling back the opponent's decision tree.

In previous chapters, it has been established that the difference between privately held and listed targets is that the company's financial and strategic information is not necessarily available to the universe of potential bidders. Therefore, in the divestment of a privately held company, negotiations can be exclusive with one interested party without anyone else knowing about the target being available for sale. In order to ensure that the buyer with the highest synergies is identified and compelled into making the highest possible bid, target shareholders have to simultaneously negotiate with several interested parties. If multiple bidders are included in the sales process, it can be organized as an auction process. Subramanian (2009) comments that an auction is the appropriate sales process if the number of potential buyers is large, assets can be precisely specified, speed matters, and transparency is important. He concludes that these circumstances typically apply to divestments of a corporate asset and company sales. Hansen (2001) comments that in the auction of a company, the assumption is of an open, ascending (English) auction where the winning bidder pays the second-highest bid. Bidder valuations, taking into account all potential synergies, are private knowledge, but the seller knows the probability distribution function or simply has the possibility of estimating their synergies. Since bidders tend to have different skill levels in terms of managing the target assets, it is often assumed that the valuations are uncorrelated across bidders—a 'private value'. Alternatively, bidder valuations may be correlated—a 'common value' environment that requires bidders to shave their bids in anticipation of the 'winners curse'. It is also commonly assumed that the bidder's outside option is status quo. That is, the payoff to the bidder is zero when losing the auction. This assumption has to be relaxed, as bidders can have a toehold investment in the target company and a successful transaction (or an alternative outcome) has an impact on the competitive environment in the target's market.

The above findings and comments are pertinent to the research project as they discuss information asymmetries in the context of bidding competition and other elements of the divestment process that can be studied using game theory and decision analysis.

2.5.4 Auction in the divestment process

Hansen (2001) describes the sell-side M&A process as an auction, where the advisor acts as the de facto auctioneer. The advisor, knowing the company, draws up a list of potential buyers. This list includes companies with a strategic fit (strategic buyers) such as competitors, suppliers, and customers. In addition, acquisition-oriented conglomerates and financial investors such as private equity firms can be included in the list of potential buyers. As earlier described, the first bidding round results in the submission of nonbinding indicative offers, followed by a due diligence process for selected bidders and a second bidding round. This final step, before a transaction can be formalized, consists of the submission of more detailed binding offers for the purchase of the company. Hansen (2001) argues that having two rounds of bidding is not the best possible practice for an auction and suggests that the seller charges an entry fee for the auction at the due diligence stage, in order to increase the expected total revenue from the transaction. He discusses the trade-off between the risk of releasing the information to a larger number of potential bidders and the price optimization benefit from having more bidders in the process. However, the study does not provide any empirical evidence to support this theory, which would also have to accurately consider all cost factors such as the legal and financial advisory cost of the due diligence that bidders and the seller have to bear.

Further, there is an emotional component to every auction and, especially in the case of strategic acquisitions, trust and comfort can become decisive factors for the acquiring management. The bidder must repose trust in the information provided and especially in the key management that is foreseen to continue working in the combined entity. The seller's perspective is quite different and usually more short term oriented. Graebner (2009) analyses, in multiple case studies, the trust asymmetries in the takeovers of entrepreneurial firms and the resulting vulnerability of entrepreneurs in the divestment process. She addresses the question of how to minimize the seller's vulnerability to broken promises by bidders, and concludes that a cautious approach in the divestment is more likely to optimize the outcome for the seller and prevents major deceptions. Subramanian (2009) comments that one important characteristic of any auction is the seller's

commitment to stick to the rules of the game. For auction-theoretic results to apply, bidders must be relying on the proposed mechanism so that the seller can secure the best price for the firm's shareholders. For example, in a first-price auction, in which bidders optimally shave their bids, the seller must be able to commit not to allow further bid revisions by the losing bidder (who, after losing, may want to submit a bid higher than the winning bid). Studying a sample of transactions with listed targets, Fishman (1988) analyses the issue of due diligence cost assuming that bidders must pay an investigation cost to identify their respective private valuations of the target. He concludes that once a number of bidders has conducted due diligence, so that both investigation costs are considered sunk costs, an open English auction with costless bidding can be conducted. However, in the case of privately held companies, even after due diligence, there are often informational asymmetries that remain unresolved. The acquirer may insist on certain guarantees issued by the seller, but earn-out payments as an alternative mechanism have become very common in order to bridge the gap between the seller's price expectations and the best possible offer by the bidder (Von Werra, 2014). As different bidders may offer different transaction structures and forms of payment, comparing bids in order to choose the best one can become a complex valuation exercise of its own. Lukas, Reuer, and Welling (2012) use a game-theoretic option pricing approach to discuss earn-outs in mergers and acquisitions. They formulate the theory that an earn-out is not costless to the acquirer but merely a way of delaying the payment, and that associated costs increase significantly if significant uncertainty exists over the target firm's future value.

Describing the applicability of auction theory to corporate divestments, Subramanian (2009) suggests that barriers to entering the bidding contest should be kept low in order to increase competition and optimize prices. However, it is known that in the context of competitive bidding, target management sometimes agrees to termination fees;⁴ this is believed to favour the management's preferred or white night bidder, and deter competitive bidding. However, Officer (2003) finds empirical evidence that public transactions with target termination fees involve significantly higher premiums and success rates than deals without such clauses. They conclude that the higher premium earned by the target is likely to be motivated by the perceived deterrence of free riding activities of other potential bidders, which by itself can be interpreted as signalling

⁴ Termination fees refer to the amount payable in the event that one party fails to consummate a previously agreed transaction because it was unsuccessful in getting shareholder approval or because it agreed to a competing offer.

high value. In any case, these results do not prove auction theory wrong, as it is not known if the premium would have been even higher with a different process. However, these results illustrate the complexity of strategic corporate transactions. Another limitation to the explanatory power of auction theory for takeovers of publicly listed targets is the previously discussed influence of the quoted stock price on the price offered in a takeover. Studying a large sample of public M&A transactions, Baker, Pan, and Wurgler (2012) find that recent peak prices help to explain the bidder's offer price, bidder announcement effects, deal success, and, more speculatively, merger waves. From an allocation perspective, the effect on deal success is particularly interesting, in that it constitutes a real effect through the distribution of capital across investment opportunities

The above findings and comments are pertinent to the research project as they discuss how a competitive bidding process can be created for a privately held target and how this increases the negotiating power for the selling party. Further, in the multiple case studies, it has been analysed to what extent the divestment process can be optimized based on auction theory, as discussed above.

2.5.5 Conclusions on the auction of companies

It can be concluded that private companies benefit in most cases from an auction-like process. Further, there is a strong theoretical basis for auction theories in the context of M&As, and it can be assumed that these theories can be applied with certain adjustments to a real business case. However, only very limited empirical evidence exists and it would be interesting to look at particular cases of corporate divestments in order to study how the best possible process can be selected and how success can be measured. Besides a discussion of the optimization potential of auction processes used in divestments of privately held companies, the key issues related to information asymmetry have to be further studied. Even if not measurable with available data, there is a clear trade-off between benefits from transparency versus the risk related to confidentiality in the divestment process. In turn, there are mechanisms such as earn-out payments, which can be useful to overcome informational asymmetry and resulting valuation gap.

2.6 Private equity investments

2.6.1 Introduction to private equity investments

Hess (2009) comments on the case of Green LLC, a copier recycling company that was taken over by a private equity investor in the year 2000. The founder had to give up control in order to

facilitate an equity transaction that assured the continued growth of the company, while staying involved as a CEO and minority shareholder. As the private equity fund has to exit its investment within 3-7 years in order to distribute the returns to its fund investors, the business plan has to be adjusted in order to get the company ready for an IPO or a strategic divestment. In this case, it is shown how a financial investor can contribute to the success of a high potential company that cannot finance its rapid growth without an additional equity investor. Operating companies usually define their acquisition strategy in the context of business development, but private equity funds are investment vehicles, directly transforming value created in an acquisition into returns for their investors. Opposed to operating bidders, buyout funds usually do not have synergies with their targets, which is why they typically try to optimize management performance and the company structure. Damodaran (2003) argues that the acquisition premium by definition has to be different in every transaction, depending on the bidder's potential synergies with the target. In a competitive process with rational bidders, operating companies from the same industry should be able to outbid private equity funds. However, an increasing number of targets are divested to private equity funds and other non-operating firms specialized in takeover activities (Dawson, 2009).

2.6.2 Investing in privately held enterprises

Until this point, we have implicitly assumed that the reason for purchasing a company is simply to run it as a going concern, but it is also possible for a company to specialize in the acquisition, transformation, and resale of other businesses. The understanding of private equity investors' motivations adds to our understanding of their approach to the acquisition process. Broadly defined, private equity involves investment in unquoted companies and includes both early stage venture capital and later stage buyouts. While early stage venture capital investments have raised major issues concerning the stimulation of policies to address financing gaps, recent debate has concerned the buyout segment of the market, where a financial investor acquires control of a cash flow positive firm using debt financing in order to leverage the transaction (Wood and Wright, 2009). The economic and social impact of a transaction with a private equity investor is of interest to certain sellers in particular and to society in general. In their review and synthesis on private equity studies, Wood and Wright (2009) comment that even if private equity controlled firms tend to have slightly reduced union influence after takeover, buyouts result in increased employment. In addition to growing business and staff, the adoption of new reward systems and expanded employee involvement are named to be positively correlated with private equity ownership. The

shareholders of family businesses are particularly likely to be interested in the social impact of a potential divestment to a private equity fund. They sometimes also have another non-monetary motivation, which is to maintain the company's name and reputation. In many cases, a transaction where the family business is sold to a private equity firm results in a win-win outcome for all stakeholders. Dawson (2009) finds that private equity professionals have a high interest in family businesses and consider family-specific criteria, including human resources and opportunities to reduce agency costs. However, not every family business can be easily taken over by a private equity investor, as they prefer firms that are already professionalized and have qualified managers running the daily business.

Private equity funds or, more particularly, buy-out funds are specialized in takeovers where the acquisition price is inferior to the full potential value of a company. Private equity funds, including venture capital and buy-out funds, are best described as financial investors that take over or invest in private companies, take an active role in monitoring and advising investee companies, exit investments through a sale or an IPO, and whose goal is to maximize the present values of their current and future fund revenues (Metrick and Yasuda, 2011). From a seller's perspective, an important advantage of private equity investors is that they have standardized processes helping them to make investment decisions rapidly and execute them efficiently. Further, as their fund vehicles have been created in order to divest a given amount of money within limited time, they have certain pressure to execute deals. A more detailed understanding of the transactional and post-acquisition behaviour of private equity funds would be particularly useful to shareholders looking at a potential divestment of their majority stake in a privately held company. However, much of the available literature on private equity transactions is simply a recounting of anecdotal examples of negative and positive effects from different perspectives, without using scientific evidence (Wood and Wright, 2009).

The above findings and comments are pertinent to the research project as they explain how private equity funds invest in privately held enterprises, including majority acquisitions. It is further discussed that financial investors can sometimes make an offer which is attractive to family businesses with particular non-monetary criteria.

2.6.3 Generating returns on investment

Related to the valuation issues discussed in the previous chapters of this review, Baker, Pan, and Wurgler (2012) report that the parties involved in mergers and acquisitions appear to use recent stock price peaks as a reference point or anchors to simplify the complex tasks of valuation and negotiation. This reference point does not exist in the case of privately held targets, and there are potentially more market inefficiencies and lower price expectations in this segment of the takeover market. As investments by private equity funds are usually well documented and, in contrast to other private transactions, follow a relatively standardized set-up (Lerner and Schoar, 2004), one possible approach to learn more about the price optimizations in the divestments of privately held companies is the analysis of private equity performance. Private equity funds have to fully invest their assets under management in companies that are relatively less transparent and highly illiquid to later divest their holdings at a profit. Various studies address the private equity performance on the fund level and find that private equity investors benefit from the lack of transparency and other market inefficiencies to outperform public markets, gross of all fees on an aggregate level, and after risk-adjustments (Ewens, Jones and Rhodes-Kropf, 2013; Ljungqvist and Richardson, 2002). Consensus in existing literature is that buy-out funds tend to acquire their targets at lower valuations than strategic buyers and have the objective to create value by exercising influence in the business strategy and operations. Considering performance at an investment level rather than at a fund level, Ick (2005) confirms that private equity investments generate adequate excess returns over public stock markets on a risk-adjusted basis. Based on this evidence, it can be concluded that private equity investments are more attractive than an investment in the public stock market, but the important factor of control is not considered. The question remains unanswered whether private equity controlled business are more effectively managed. In the absence of richer empirical evidence, it can also be interpreted that excess returns are mainly generated by well-timed opportunistic acquisitions with optimized transaction terms. If private equity managers are not creating significant economic value for their portfolio companies, it has to be concluded that their funds also depend on market dynamics and it is difficult to find specialists consistently outperforming the market on a risk-adjusted basis. A further limitation is that the applications of standard approaches to asset pricing tend to produce overestimates of alphas and underestimates of market beta resulting in an overestimation of risk-adjusted returns (Metrick and Yasuda, 2011).

The above findings and comments are pertinent to the research project as they reveal how private equity investors generate returns over the lifetime of the fund. Value creation can be achieved by minimizing the price paid in an acquisition and maximizing proceeds from divestments of the same company, but also by increasing the portfolio companies' earnings while having a significant vote. The summarized knowledge base adds to the understanding of the divestment process where this category of potential buyers is considered.

2.6.4 Rationale of financial investors

From a seller's perspective, the question arises as to whether it is advisable to include this category of potential buyers in the process as there is empirical evidence that financial investors usually pay a smaller premium for control than strategic buyers. This could be offset by the fact that private equity investors can enter into a transaction more rapidly, both because they have the necessary skills and because they have the objective of creating a portfolio of companies that they manage for a relatively short period of time. Even if the prices offered by private equity investors are generally lower, as they rarely have strategic synergies, it can still be interesting to add them as additional buyers to a divestment process. Given financial investors' expertise in optimizing operations and the cost of capital, it is still likely that they can offer a price the seller is willing to accept, which, in theory, should be above the stand-alone value of the target company. Ivashina and Kovner (2011) comment that private equity firms' bank relationships are an important factor in cross-sectional variation in the loan interest rate and covenant structure. The results of their empirical study, covering 1,590 loans which financed private equity sponsored leveraged buyouts between 1993 and 2005, indicates that bank relationships formed through repeated interactions reduce inefficiencies from information asymmetry and allow leveraged buyouts sponsored by private equity firms to occur on favourable loan terms. There is empirical evidence that a relationship of trust between a privately held company and its bankers improves the availability of credits (Wickart, 2012). Private equity firms are especially active when banks and financial markets provide acquisition financing at high leverage ratios and low cost (de Pamphilis, 2008). However, highly leveraged acquisitions are known to be not only risky but also controversial, especially since the latest financial crisis. Chowdhry and Nanda (1993) describe the use of leverage as a driver of high valuations. In their study, they formulate the theory that if existing debt holders are not protected against the use of newly issued debt, bidders can finance their acquisitions at the cost of the sellers' existing debt holders, which drives them to offer a higher premium.

Studying a sample of takeovers of listed entities, Barger, Schlingemann, Stulz, and Zutter (2007) find empirical evidence that the announcement gain to target shareholders from acquisitions is significantly lower if a private firm, instead of a public firm, makes the acquisition. They report that non-operating firms such as private equity funds make the majority of private bidder acquisitions and that, on average, target shareholders receive 55% more if a public firm, instead of a private equity fund, makes the acquisition. Interestingly, Barger, Schlingemann, Stulz, and Zutter (2007) do not explain the difference in control premiums using the fact that private equity bidders usually do not have the same potential synergies, but find that the difference in abnormal returns is highest between acquisitions made by private bidders and by public acquirers with low managerial ownership. They conclude that public firms are more likely to pay too much for acquisitions because of their diffuse ownership. In a similar study using acquisition multiples, Mnejja and Sahut (2010) find that financial buyers pay lower multiples for their acquisitions than strategic buyers do, with a discount ranging between 16 and 24%. They conclude that financial investors follow a dispassionate approach, as they screen a dozen deals for each transaction, whereas strategic buyers are restricted to their industry sector and, therefore, to a few targets. However, they also mention the other possible explanations being that financial buyers have developed superior negotiation skills or that management often overestimates potential synergies.

The above findings and comments are pertinent to the research project as they analyse the extent to which financial investors can be important to the shareholders of a privately held enterprise preparing for a divestment. It is further discussed that the rationale of financial investors is not necessarily different because of the lack of synergies but simply because closely controlled acquirers overpay less frequently when bidding for a target.

2.6.5 Conclusions on private equity investments

In conclusion, private equity funds are interested in privately held targets, whereas typical buyout funds focus on companies with positive cash flow still bearing a certain potential. Private equity investors not only aim to buy at a low valuation and divest within a restricted timeframe, but also use their private benefits of control to create economic value at the company level. For their investors, private equity funds generate attractive returns, even considering the fact that the fund and its underlying investments have to be characterized as relatively risky and highly illiquid. From the seller's perspective, a detailed understanding of the investment strategy of a particular

fund helps in determining whether it could be an attractive buyer or not. It can be assumed that, in general, including financial investors in a corporate auction adds value. How exactly their professional and un-emotional approach is useful in order to optimize financial consideration and non-financial aspects in a transaction will have to be studied in more detail.

2.7 Literature synthesis

While summarizing the existing knowledge base, it has been demonstrated that there is an advanced understanding of the takeover transactions of publicly listed companies and the manner in which these transactions can be valued. Despite the overwhelming number of event studies on the results of takeovers and divestments there has been very little research that examines the preparation and process by which target companies come to the market. The question of how to optimize the price from a seller's perspective has been asked in the context of auction theory, but limited empirical evidence exists. Particularly for privately held companies which make up for the vast majority of company sales initiated by target shareholders, existing data sets are not rich enough in order to impart a detailed understand on the sales process and its key success factors. This study adds to the existing knowledge base by providing more detailed insight on how the divestment process has to be designed and how information has to be revealed to extract the maximum possible value in the divestment. Only if we consider the functionalities in takeover transactions can we establish best practice for privately held enterprises in a divestment process. In this chapter, observations are summarized and related to the context of the research topic. Rather than criticising the very comprehensive previous literature on transactions of listed companies, the focus has been on the identification of the numerous gaps in the research on privately held targets.

Generally, a takeover valuation has to be based on a fundamental analysis of the target company, while always being aware of the substantial risk of overestimating potential synergies. In spite of the well-established theoretical foundation and various empirical studies, no simplified approach can replace the detailed estimation of future earnings and corresponding cost of capital. It can be said that there is a certain consensus in previous literature on the fact that takeovers usually create value if sound strategic considerations are the main driver of the transaction. However, the distribution of the created value clearly depends on multiple factors, and none of the existing economic models seems to fully explain them. In the case of listed company takeovers, sellers are generally able to extract the full value of the company from buyers, so that the premium over the

existing value generated in the sale accrues to the seller. As value creation and distribution is driven by various market and business related variables, the issue relevant to this study is how these factors affect the consideration received in the divestment of a privately held company.

Takeovers of the very diverse privately held targets are not taking place in what could be described as an efficient market. While takeovers of listed companies benefit from i) efficient capital markets producing a market price for the target company's equity, and ii) regulations assuring availability of information on the target company and the details of each bid, privately held targets have to provide potential buyers the information required to determine the value of the company and potential synergies. There is a significant relative difference between the enterprise value of publicly listed and comparable privately held companies reflected in earnings multiples. This private enterprise discount can only be measured in corporate transactions where many additional factors influence the valuation paid. Despite the existing knowledge in the field of takeover valuations, the private enterprise value can hardly be precisely estimated prior to the closing of a transaction. Whether the discount is fully explained by the particularities of the asset, such as a lack of transparency and liquidity, is highly uncertain. Empirical evidence suggests that privately held companies are often a good buy and that their shareholders tend to leave more value on the table than the shareholders of their listed peers. From business owners' perspective, the issue arises as to how the private enterprise discount can be minimized or how the transaction value can be optimized in a divestment.

The public does not have any information regarding the shareholders' willingness to sell a stake in a privately held company. Therefore, a divestment process has to be initiated in order to simultaneously inform at least the group of potential buyers with the highest synergies and adequate financial strength. Besides a competitive bidding environment, reliable company information and a well-structured divestment process are clearly beneficial to the seller. It can be concluded that M&A advisors are hired by the owners of privately held companies in order to create a market for their illiquid asset. Many other questions, however, remain unanswered, as follows. How do advisors optimize the divestment process and which factors are beyond control? What is the effect of increased transparency of company information? How can confidentiality be optimized without unnecessarily restricting the information made available to potential buyers? Is it in the best interests of the target to invite a maximum of potential buyers from all categories to

the bidding process? How can differences in value perception be overcome and deal breakers be mitigated?

Based on previous literature, it can be concluded that private companies benefit, in most cases, from an auction-like process. Further, there is a strong theoretical basis for auction theories in the context of M&A, and it can be assumed that these theories can be applied with certain adjustments to a real business case. However, only very limited empirical evidence exists, and it would be interesting to look at particular cases of corporate divestments in order to study how the best possible process can be selected and how success can be measured. Besides a discussion of the optimization potential of auction processes used in divestments of privately held companies, the key issues related to information asymmetry have to be further studied. Even if not measurable with available data, there is a clear trade-off between the benefits from transparency versus the risk related to confidentiality in the divestment process. In turn, there are mechanisms such as earn-out payments, which can be useful to overcome an informational asymmetry and the resulting valuation gap.

Typically, private equity funds are interested in privately held targets, whereas buyout funds focus on companies with positive cash flow still bearing certain potential. Private equity investors aim to buy at low valuation and divest within a restricted timeframe. In addition, they use their private benefits of control in order to create economic value at the company level. For their investors, private equity funds generate attractive returns, even though the fund and its underlying investments have to be characterized as relatively risky and highly illiquid. From the seller's perspective, a detailed understanding of the investment strategy of a particular fund helps in determining whether it could be an attractive buyer or not. It can be assumed that, in general, including financial investors in a corporate auction adds value. How exactly their professional and un-emotional approach is useful in order to optimize financial consideration and non-financial aspects in a transaction has to be studied in more detail.

Previous literature covers many topics of interest to managers responsible for strategic acquisitions and for private equity investors. From the perspective of entrepreneurs preparing for succession and other potential sellers of a privately held company, the potentially most important questions remain unanswered. It seems logical that they would be interested in knowing how the understanding of takeovers and the divestment process can be used in order to optimize their

outcome in a transaction. In conclusion, an applied research project would add most value to the existing knowledge base, by developing a better understanding of how the divestment price can be optimized when selling a privately held company. The absence of a previous study addressing this question is related to the lack of available information on private transactions. In order to answer the questions that are relevant to business owners and their advisors, the challenge of data collection should first be addressed. The possibility of building on approaches from previous research in the field of mergers and acquisitions will be discussed in the methodology chapter, in the context of data accessibility.

3 Research question, aim, and objectives

3.1 Research question

There is empirical evidence on publicly listed companies that, on average, value is created in takeover transactions through synergies and that, in competitive bidding processes, an acquisition premium is offered by potential buyers (Andrade, Mitchell, and Stafford, 2001). In the case of privately held companies, the seller has to take the initiative and create competition in the sales process (Graebner and Eisenhardt, 2004). The formal theory of this research project is based on conclusions from the comprehensive literature review. Motivated by the previous literature, the research project has studied the drivers determining the transaction values paid for privately held targets and how sellers can maximize their consideration. In order to understand what steps can be taken by the selling shareholders, the major challenges first need to be identified. The research question is:

What factors influence the ability of the sellers to extract value when divesting a privately held target and how can these factors be optimized?

This study adds to the existing knowledge base not only by providing an in-depth analysis of the divestment process, but also by studying the perspective of specialized advisors. This has provided an insight into the work of M&A advisors and a critical assessment of their added value.

Besides a successful closing of the transaction within a reasonable timeframe, the focus lies on the total consideration received for the sale of private companies in order to measure success. This is in line with Defren, Wirtz, and Ullrich (2012), who defined the measures of success to be the

selling price, speed of negotiations, and transaction certainty. More specifically, the transaction values have been compared to previous stand-alone valuations, and relative measures such as earnings multiples have been calculated. From previous studies, we know that there are firm characteristics determining the price or valuation paid in a transaction, which cannot be influenced by the target shareholders. In various empirical studies using multivariate econometric models, independent variables such as sector, size, and financial performance have been identified as determinant factors for the value of listed companies (Damodaran, 2006). Another given is usually the structure and M&A activity in the target company's industry, which largely drives the acquisition appetite and the number of potential bidders for both, listed and private targets (Andrade, Mitchell, and Stafford, 2001).

Other value drivers can be steered within the divestment process, which means that the seller can affect the divestment value by designing the process effectively. It is assumed that mainly the selection of potential acquirers, who are informed about the intended divestment and the competitiveness of the bidding process, significantly influences the transaction value. This assumption is based on previous empirical evidence finding that sellers are able to maximize the price if the universe of potential buyers is known and no information asymmetries exist (Boone and Mulherin, 2007). In this study, special attention has also been given to information dissemination throughout the process. According to the related theory, it is fundamental that the seller discloses relevant information in a controlled yet credible manner in order to allow potential buyers with synergies to offer the best possible price (de Pamphilis, 2008). In this sample, the divestment process was designed and accompanied by a specialized advisor. As discussed by Golubov et al. (2012), the value proposition of M&A advisors is that they help in optimizing the outcome of the transaction, supporting their clients⁵ with knowledge, resources, contacts, and their credibility in the market. Typically, the tasks of the advisor comprise (1) preparing the necessary company information and drawing up a list of potential buyers; (2) first confidential contact and controlled distribution of information; and (3) organizing indicative and binding bidding rounds (Hansen, 2001). The performance of tasks within the divestment process as described in the flow chart in appendix 1 and the added value of the advisor have been critically analysed in this study.

⁵ The term client refers in this and all the following chapters to the shareholder or shareholders of a privately held enterprise that hired an M&A advisor in order to support them in a potential divestment of their majority equity holdings.

3.2 Research aim and objectives

The aim of the research project is to understand the success factors determining the value extracted by sellers when divesting a privately held target and the manner in which these success factors can be optimized. The corresponding objectives have been formulated by building on the existing knowledge base and considering that the research project has been conducted in collaboration with specialized M&A advisors pitching their services to entrepreneurs who are looking for support in setting up an optimized sales process. The objectives of the research project are:

1. To assess the importance of factors determining the seller's ability to maximize the value extracted when divesting a privately held target;
2. To analyse how the most important factors are considered when specialized advisors set up a divestment process; and
3. To understand how the divestment process can be optimized to improve the seller's ability to extract value from the divestment of a privately held target

The second research objective stated above links the research question, consisting of research objective 1 and 3, to the chosen methodology, including data collection through specialized advisors participating in many transactions. These advisors try to maximize their clients' proceeds from the transaction by optimizing the key success factors of the divestment process. These key success factors or value drivers that can be optimized are the main elements of the divestment process to be understood in order to answer the research question formulated above.

3.3 Main elements to be studied

Most of the main value drivers in mergers and acquisitions have been identified and, in previous literature, we find evidence for several factors that influence the ability of sellers to extract value when divesting a privately held target. The following summary, drawn from the literature review, consists of elements that are most relevant to the divestment process of a privately held company and, to a certain extent, controllable by the selling shareholders and their advisors (also referred to as the key success factors).

In an empirical study on privately held targets, Officer (2007) finds evidence that subsidiaries which are divested due to financial constraints of their parent company and, therefore, have reduced negotiation power, are sold at lower relative valuations. In consequence, an objective in the divestment process should be to increase negotiation power. There is evidence from public

transactions that the competitive environment in a bidding process and market conditions are factors driving the acquisition prices paid. From the results of these studies, it can be concluded that the timing of a transaction relative to merger waves, trends in equity markets, and the availability and cost of financial leverage is relevant for value extraction in a company sale (Andrade, Mitchell, and Stafford, 2001). In consequence, an objective in the divestment process should be to initiate under favourable market conditions.

In a worldwide survey with company managers involved in divestments, participants stated that in order to maximize the value created in a transaction the full range of potential buyers with important synergies has to be considered and a compelling value and growth story formulated for each (McCrostie and Driessen, 2013). It is suggested that even if they usually do not have any synergies, private equity investors can be an attractive counterpart in the type of transactions studied. As discussed in previous studies, their mission and structure allows for efficient acquisitions of privately held targets, using their expertise in order to minimize the cost of capital (Ivashina and Kovner, 2011). In consequence, an objective in the divestment process should be to contact potential buyers with synergies and financial investors.

In another empirical study on the private enterprise discount, DiGabriele (2007) finds evidence that transparency is positively correlated with the value extracted in a transaction. Defren, Wirtz, and Ullrich (2012) report that, along with the seller's reputation and warranties, factors such as quality of information, openness, and credibility of information are positively correlated with divestment success. In consequence, an objective in the divestment process should be to increase transparency on the target company information. It has also been established, with empirical evidence from privately held companies, that in order to bridge this information and potentially resulting price gap, earn-out payments can be agreed upon (Cain, Denis, and Denis, 2006). Further, Defren, Wirtz, and Ullrich (2012) comment on how to mitigate a deal breaker and successfully close a transaction. In consequence, an objective in the divestment process should be to mitigate potential deal breakers and use earn-out payments in order to close any gap in perceived value of the target company.

Further elements of the divestment process to be studied are drawn from Hansen (2001) who briefly describes the sales process typically used an open, ascending (English) auction where the winning bidder pays the second-highest bid. Luypaert and De Maeseneire (2014) find evidence

indicating that there is a learning effect that increases the probability of a successful closing when more experienced parties are involved in the takeover process. M&A advisory firms have abundant transaction experience and are often well known to the potential buyers. Especially in the information dissemination process, the market reputation of the advisor is important as, even before conducting a full due diligence, bidders can rely on the accuracy of information provided. Further, M&A advisory firms contribute to the process by disseminating confidential information in a controlled manner and providing support in the form of deal structuring (McCrostie and Driessen, 2013). The same authors' survey suggests that a higher price can be achieved if a compelling value and growth story is formulated for each buyer in order to show how a transaction would create value.

The findings summarized above, which have been discussed in more detail in the literature review, essentially describe 10 different elements relevant to the successful divestment of a privately held company. Building on this existing knowledge base, the following key success factors can be considered highly relevant to the outcome of the transaction:

- 1) The benefit of increased negotiation power through competition in the process of divesting a privately held target
- 2) The benefit of initiation of the sales process under favourable market conditions when divesting a privately held target
- 3) The benefit of contacting a well-selected group of bidders with the highest potential synergies in the process of divesting a privately held target
- 4) The benefit of inviting financial investors with access to low cost leverage to the bidding process when divesting a privately held target
- 5) The benefit of increased transparency of company information in the process of divesting a privately held target
- 6) The effect of well controlled information dissemination to potential bidders in the process of divesting a privately held target
- 7) The benefit of articulating a compelling value and growth story for each buyer in the process of divesting a privately held target
- 8) The benefit of an optimized auction process used when divesting a privately held target

- 9) The benefit of earn-out payments as part of the consideration when divesting a privately held target
- 10) The benefit of the identification and mitigation of potential deal breakers in the process of divesting a privately held target

As discussed in the literature review and summarized in the previous paragraph, the relevance of these factors for the outcome of divestments has been reported in academic and business literature. However, in order to endorse or reject the importance of each of the above selected key success factors, a survey-based study has been conducted with a large number of M&A advisors. While being independent from the multiple case studies, this survey has provided confirmation for the focus on the relevant key success factors of the process. In order to explore the above-mentioned elements in any meaningful way, a more holistic approach than hypothetico-deductive research approach has to be applied.

4 Methodology

4.1 Introduction

The primary objective of this chapter is to communicate the design and function of the research methodology so that the reader can appreciate exactly how the research data has been generated and how the data has been analysed in order to provide a basis for the generation of results and conclusions. Limited availability of data has been the main challenge to overcome in this research project. Particularly the lack of detailed deal data on the reported takeovers of privately held companies has been important to the choice of the research methodology. Quantitative and qualitative methods have been considered and multiple case studies have been identified as the most appropriate method for the main study. In line with the most recent findings on research methodology to be used in studying M&A transactions, the divestments have been studied as processes and not as stand-alone events (Meglio and Risberg, 2010). As also discussed in this chapter, the accessibility of confidential data on the divestment of privately held companies can only be assured by means of an appropriate approach for data collection and analysis.

4.2 Study philosophy

In the study, selected privately held companies have been examined during the divestment process, analysing how target shareholders and their advisors can optimize the transaction value paid at

closing. Based on the philosophy of critical realism, multiple sources of data have been used in order to discern the actual situation as a basis for the formulated theory. In line with Bryman and Bell (2007), the research strategy chosen is a mixed methods approach. The theoretical framework combines quantitative and qualitative methods to generate results contributing to the existing knowledge base. However, it has to be noted that the quantitative elements of the study are limited. The previously defined research question has required a rich set of data and can best be answered by gaining a better understanding of the M&A divestment process. Therefore, the value of this applied business research project has been enhanced by being undertaken predominantly within the phenomenological framework. The chosen research paradigm and need for better triangulation has significantly influenced the choice of the method.

The advantages of a qualitative approach include the fact that it has been possible to gain a better understanding of the divestment as a process rather than studying the results merely as an event. A hypothetico-deductive approach would have been less appropriate to identify the value drivers in the divestment of a privately held company and would not have helped in understanding how the selling price can be optimized. Even if the transaction value paid is measurable, it is not relevant as an isolated number. It has to be compared to valuations paid in other transactions, leaving room for subjectivity when selecting comparable transactions and choosing the methodology for the most appropriate relative value analysis (de Pamphilis, 2008). The richer data collected in the multiple case studies have allowed for a qualitative analysis of the divestment processes and the outcome of the transactions. As only a smaller sample has been available for the study, an inductive approach has been used. Following Eisenhardt (1989), within case analysis and cross case analysis have been conducted in order to answer the research question.

4.3 Accessibility of data

4.3.1 Attempted pilot study

Since the initiation of the research project, the difficulty of data collection has been addressed with the highest priority. An advisory firm specializing in the divestments of privately held companies (hereafter 'FirmA') has first signed a letter of support confirming its participation in the research project. No formal pilot study has been conducted, but the initially proposed mix of methods has been discussed with FirmA and tested with one of their clients, at that time in the divestment process. The company for sale was a Swiss-based job placement agency with five branches and

more than 30 full time employees. After its foundation in 2002, it quickly developed in the niche segments of healthcare and hospitality services, with total annual sales of more than EUR 50 million as of 2012. The founder and sole shareholder had decided to divest all holdings in the company for strategic reasons.

Initially, the idea was for the researcher to participate in the divestment process as an observer, with direct access to the selling shareholders and their advisors. Structured interviews were planned to be held, during and after the divestment process, with:

- a) Target shareholders and their advisors (pre- and post-closing)
- b) Bidding company management/investors and their advisors (only post-closing)

The timing of the data collection process was planned along the major phases of a divestment process, in line with Hansen (2001):

1. Preparation and contacting phase, with the aim of receiving indicative offers;
2. Due diligence phase, with the aim of receiving binding offers from the bidding parties; and
3. Final negotiation phase, aiming for the successful closing of the transaction

The problems arising with the initially proposed research methods were related to the advisor's lack of time and the confidentiality issues pointed out by the client. Based on this first experience with FirmA and its client, it was decided to discuss the proposed research methods also with other M&A advisors.

4.3.2 Input from potential participants

The main feedback from the contacted M&A advisors was as follows. (1) They prefer not to disclose the names of their clients and do not allow direct interaction, as this would create a business risk even if, legally, the risk is covered through a confidentiality agreement. (2) Many meetings between the client, advisor, and especially, potential buyers are highly sensitive to relational dynamics. Therefore, the presence of an additional person as observer could interfere and influence the productivity and outcome of such meetings. (3) Further, logistics to assist meetings for observational research would be a challenge, as at least one personal meeting with the advisor and the client would be necessary before the researcher would be allowed to such observational research meetings. (4) It was also pointed out that clients can only allocate minimal time to interviews as they already have to dedicate significant time and resources to the divestment

process and cannot neglect their daily business. (5) Another typical concern mentioned was that the relationship between the advisor and client could be negatively affected. Depending on the nature of critical questions, clients could be irritated and lose trust in the work of their advisor. Based on their feedback and careful analysis of business constraints, a methodology for a well-structured data collection, minimizing the time requirement and maximizing confidentiality, has been developed. It has to be remembered that the more the information asked for, the less likely participants are to cooperate in such a study.

4.4 Study design

Previous work on the accessibility of data, in combination with the review of previous studies in the field of mergers and acquisitions, is the basis for the study design outlined in this chapter. As of today, there is insufficient secondary data as described in the literature review in order to answer the research question. Further, there is no deal database with sufficient information on the divestment of privately held enterprises. Therefore, the initially proposed multiple case study approach is still considered to be the most adequate in order to study how the consideration can be maximized in such a transaction. While ethnographic observation could be an interesting research approach in order to collect a very rich data set, the previous work on accessibility has clearly shown how difficult it would be to implement such a methodology in the case of the divestments of privately held companies. Therefore, a combination of interviews, questionnaires, and deal documentation has been chosen for data collection. This approach is not only well perceived by participants but is also in line with research methods recommended for business research in general (Bryman and Bell, 2007) and mergers and acquisitions particularly (Graebner and Eisenhardt, 2004; Meyer, 2001).

Before initiation of the multiple case studies, the 10 main elements or key success factors of the divestment process have been endorsed by means of a short questionnaire sent out to specialized M&A advisors (detailed explanation in Chapter 4.6 on data collection). To then better understand the elements rated to be important and answering the research question, multiple case studies with three M&A advisory firms have been conducted. As each M&A advisory firm has been asked to participate with several projects, a total of five cases have been included in the study. It has been anticipated that sufficient data could be produced, even if not all of the attempted divestments of a privately held company result in a transaction. Each project has gone through three data

collection stages: before indicative offers (letter of intent) have been received, after indicative offers have been received but before due diligence is started, and after the closing or abort of the transaction. In each data collection stage, the advisor has participated in an interview while the client answered a corresponding questionnaire. With five projects, this has resulted in 15 interviews plus 15 questionnaires of 8 to 10 questions each. In addition, all available deal documentation has been reviewed after the closing or abort of the transaction. The table below illustrates the research design and data sample, while the data collection process is described in more detail in chapter 4.6.

Table 2 Data collection

Projects	Before indicative offer		Before due diligence		After closing			Total data sets
	Interview 1	Questionnaire 1	Interview 2	Questionnaire 2	Int. 3	Quest. 3	Deal documentation	
FirmA project 1	Interview 1	Questionnaire 1	Interview 2	Questionnaire 2	Int. 3	Quest. 3	Deal documentation	7
FirmA project 2	Interview 1	Questionnaire 1	Interview 2	Questionnaire 2	Int. 3	Quest. 3	Deal documentation	7
FirmB project 1	Interview 1	Questionnaire 1	Interview 2	Questionnaire 2	Int. 3	Quest. 3	Deal documentation	7
FirmB project 2	Interview 1	Questionnaire 1	Interview 2	Questionnaire 2	Int. 3	Quest. 3	Deal documentation	7
FirmC project 1	Interview 1	Questionnaire 1	Interview 2	Questionnaire 2	Int. 3	Quest. 3	Deal documentation	7
Total data sets	5	5	5	5	5	5	5	35

4.5 Data sources

The study has been limited to the seller's perspective, with a focus on the price optimization drivers which can be controlled by the selling party. Accessibility constraints have required a coordination of data collection with participating M&A advisors. Despite the risk of selection bias, the sample had to be created based on the availability of M&A advisors currently holding a sell-side mandate from a privately held company, their interest in participation, and their willingness to accept the proposed methodology. Therefore, the sampling process is similar to convenience sampling, except that every available participant with a suitable case had to be accepted. Theoretical sampling was not possible given the very limited number of advisors potentially interested in participating. Under the concept of anonymous data collection, without direct interaction between the researcher and the privately held company for sale, three international M&A advisory firms have confirmed their participation:

- 1) International M&A advisory firm (FirmA): Advisory company specialized in small and medium enterprise transfers, sales, and takeovers, composed of a team of finance, law, and tax professionals, founded 10 years ago, with six branches in Europe
- 2) Global network of M&A advisory firms (FirmB): One of the world's leading independent M&A advisory firms, specialized in the middle market for M&A, financings, corporate restructurings, and other corporate finance transactions, founded 10 years ago, with 41 branches worldwide
- 3) Accounting and finance advisory firm (FirmC): One of the world's leading networks of independently owned and managed accountancy and business advisory firms with a presence in 131 countries and a global offering of corporate finance advisory services

Each of the above M&A advisory firms have been asked to participate, with several projects in the multiple case studies. Per firm, 2-3 M&A advisors have been asked to participate with one sell-side mandate from a privately held company. As FirmC has not reported back to the researcher with at least one project to be included in the multiple case studies, the participation of FirmC had to be substituted by a freelance M&A advisor who used to work in a leading investment bank (Advisor5), in order to conduct the study with a sample of 5 divestment processes. A potential selection bias exists, since advisors could tend to participate with a divestment project for which they anticipated a successful outcome. However, the described sampling process is preferable to a retro perspective selection, and M&A advisory firms clearly do not offer transparency on the full universe of live projects. The timing of data collection had to be communicated to participants from the beginning, in order to assure them that the data collection period did not exceed the timeline of the research project. This restriction has partly mitigated the selection bias, as most participating advisors did not have more than one project with respect to the timing of the research project. The chosen approach overcame the limited accessibility of data with the smallest possible compromise on the outlined data collection process.

In the design of interviews and questionnaires, the participating advisors' comments were considered. It is important to remember that the more the information that is asked for, the less likely the participants are to cooperate. Particular attention has been given to the factor that the dynamic of the decision making process must not be influenced by the questions asked to the client. Clearly, questions could not be changed upon the request of the advisor. However, it was

anticipated that advisors could withdraw from the study or ask for a question to be omitted. Further, the number of interviews and questionnaires had to be limited to three (of each) per transaction process. In addition, the length of the interviews had to be restricted due to the advisors' concern about the amount of time required. These changes to the data collection process reduced the amount of data that could be collected per transaction, but increased the number of participants. Further, it was decided that due to additional accessibility issues, the buyer's perspective could not be included in the scope of this research project.

4.6 Data collection

4.6.1 Before the multiple case studies

Before proceeding to the multiple case studies, a short questionnaire has been provided to all participating M&A advisors, their colleagues at the same three firms, and other mid-market M&A advisors. They have been asked to rate the importance of 10 key success factors in the divestment of a privately held company. In order to endorse or reject the importance of these factors, 100 advisors have been asked to rate, from 1 (not important at all) to 5 (extremely important), the following potential objectives in a divestment process:

- 1) Increasing negotiation power by creating competition
- 2) Initiating the sales process under favourable market conditions
- 3) Selecting a group of bidders with the highest potential synergies
- 4) Inviting financial investors to the bidding process
- 5) Increasing the transparency of target company information
- 6) Controlling information dissemination to potential bidders
- 7) Articulating a compelling value and growth story for each buyer
- 8) Optimizing the auction process used in the divestment
- 9) Overcoming price differences using earn-outs
- 10) Identifying and mitigating potential deal breakers

4.6.2 Outline of multiple case studies

The above elements have then been analysed throughout the multiple case studies conducted with the participating M&A advisors and their clients. As each divestment has been studied as an on-going process rather than as a stand-alone event, sampling time is real, with data collected during the divestment process and after closing. The M&A advisors were willing to support the research

project under the premise that they can contribute to the data collection without any direct introduction to their clients. In order to conduct the multiple case studies anonymously, interviews have been held with advisors, while their clients have answered questionnaires.

At each stage of the process, questionnaires were sent to the advisor for submission to their client, after the interview had been conducted. The reason why interviews had to take place before the questionnaires could be sent out is that the advisors assist in submitting the questionnaires so that the identity of the client is not revealed to the researcher. In this process, they have also looked at the questions asked to the client, with the right to refuse to forward the questionnaire. By conducting the interview that consisted of the same main questions beforehand, it has been assured that interview questions were not known at the time of the interview and the advisors could not prepare the answers to the questions. The client questionnaire included the same main questions as the structured interviews with the advisor, the objective being to obtain comparable data from different sources. The purpose of the data collected from the client questionnaires was mainly to corroborate and complement the data collected from the advisor. The data collected from the advisors through the structured interview was expected to be richer than the data collected from the clients through questionnaires.

The timing of the data collection process depended on the advancement of each observed divestment process. Participating M&A advisory firms all estimate their projects to take 3 to 6 months from the initial contacting of potential buyers to the closing of a transaction. The M&A advisors committed to participate with five projects with the following data collection process:

1. Before indicative offers were received: 1 interview with advisor, 1 questionnaire to client
2. Before due diligence was started: 1 short interview with advisor, 1 simple questionnaire to client
3. After closing: 1 interview with advisor, 1 questionnaire to client

In a typical divestment process, as described by Hansen (2001), the first bidding round is where the selling party receives a first market price indication for its privately held company. The first round of questions has been asked before this initial price indication, in order to study the value perception and price expectation of the seller, as well as the ex-ante description of the divestment strategy. Before the start of due diligence, the price indication and divestment process are known,

but there is still high uncertainty about the outcome. Besides following up on value perception, a major issue covered in the second set of questions was the trade-off between the transparent disclosure of information in order to attract bidders versus the risk and cost of this disclosure. The last round of questions has been asked after the closing or abort of the transaction, in order to study the outcome and any differences between the planned and actual divestment process. An overview of the divestment process, based on Hansen (2001) and adjusted based on preliminary discussions with the M&A advisors participating, can be found in the appendix section. Comparing the data collection with the divestment process as described in the literature review and the appendix, it has to be noted that there was no separate data collection during the preparation phase. Therefore, stand-alone valuations were discussed in the contacting phase, in the interview. Further, questions regarding the negotiation phase and the actual closing of the transaction were asked at the same time in the last set of questions.

4.6.3 Data collected in multiple case studies

All questions asked in the interviews with the M&A advisors have been triangulated in the questionnaires sent to their clients. They are related to the previously defined elements of the divestment process and successful measurement of the outcome of the transaction. The main questions that have been asked before the indicative offers are received were as follows.

- 1) How was the decision to start a divestment process reached, and why is the company for sale?
- 2) How will the divestment process be set up in order to maximize negotiation power?
- 3) What is the contacting strategy regarding the types of potential buyers and number of parties to be contacted?
- 4) How will the flow of confidential information be managed?
- 5) How much is the company worth to its current owners?
- 6) On what methodology and assumptions is the valuation based?
- 7) Is it expected that the offers will be above, below, or in line with the valuation?
- 8) What is your opinion on market conditions with respect to a divestment?

The structured interviews included precise follow up questions. The follow-up questions in the second stage were all closed as, at this crucial interim stage of the transaction, time constraints and

confidentiality were even more sensitive. The main questions asked after the indicative offers, but before due diligence process was started, were as follows.

- 1) How has your perception on market conditions and the value of the target company changed since the last interview?
- 2) How many offers from what type of bidders have been received?
- 3) What are the premiums and discounts compared to the previously conducted valuation and how are they explained?
- 4) How many bidders are you inviting to conduct a due diligence and under what conditions?
- 5) What are the main reasons why the transaction could still fail and how do you mitigate these risks?
- 6) How could you overcome any existing or potential difference in the perception of value?

It was anticipated that not all the projects would be successful. For aborted transactions or any other special circumstances, the final set of questions had to be adjusted while remaining in line with the questions asked in case of a successful closing of the transaction. The main questions asked after the closing of the transaction were as follows.

- 1) How was the due diligence conducted (information and process) and how were final offers adjusted?
- 2) Which were the most important confidentiality issues, as information had to be disclosed to potential buyers?
- 3) How has the perception of the value of the company changed throughout the process and what is today's understanding of market conditions?
- 4) How were differences in value perception or other potential deal breakers addressed and overcome?
- 5) Do you think it was a good deal from a seller's perspective, with the best possible buyer?
- 6) What is, in your opinion, the buyer's net result of the transaction, in terms of long term value creation?
- 7) To which extent could the divestment process be managed according to plan and how did it optimize negotiation power?
- 8) What is your perception of the work and value of the M&A advisor?

In addition to the main questions, an introduction question and a final question have been added in all interviews. The outline of the structured interviews, all interview questions, and the corresponding questionnaires are included as appendices.

The questions have been asked in a different way in the structured interviews with advisors and the questionnaires for the sellers. For the structured interviews, a framework had been prepared. Most questions were open-ended and were followed by further probing, to elicit more detail. The interviews have been digitally recorded, unless the participant did not agree to be recorded, and transcribed. As interviews were structured and consisted of few main questions with very precise follow up questions, adequate quotation has been possible, even if interviews were not recorded and, therefore, transcripts are limited. The anonymous questionnaires for the selling shareholders were forwarded to them by their advisors, addressing the same questions in an equivalent manner. Due to the previously described confidentiality issues, the data from clients has been collected through the participating advisors.

Only at the closing or abort of the transaction, certain documentation related to the divestment process and the resulting transactions could be obtained. An anonymous version of the offering or information memorandum, valuation report, contacting (or potential buyers) lists, indicative offers, and final deal and process documentation have been asked for, to complement data obtained and for triangulation. However, the deal documentation that has been obtained was generally more limited.

4.7 Data processing and analysis

4.7.1 Main elements to be studied

As every divestment is a unique story about a particular company being sold under the current market conditions, the actual process was expected to be a different one in each project. However, it was expected to see common patterns and that advisors focus in the divestment process on the success factors they rated to be important. It has been interesting to see how well clients were informed about all the relevant aspects and how deviations from the initially proposed divestment process were explained. It is also important to contextualise the previously explained factors, as there often is a trade-off between optimizing one or another. In the case of more transparent target company information that is provided to potential buyers in order for them to gain confidence about suitability and potential synergies (DiGabriele, 2007), it has to be considered that

confidentiality is also a factor to be optimized. Hansen (2001) formulates a theory stating that the cost of disclosing confidential information has to be compared to its potential benefits. Both practitioners and academics agree on the fact that higher offers can be obtained from a bidder with synergies (Andrade, Mitchell, and Stafford, 2001). However, financial investors are still often included into the bidding process and are said to be attractive bidders due to their ability to act quickly and optimize financing cost (Ivashina and Kovner, 2011). It has been interesting to see how this is considered when selecting the potential buyers to be contacted.

Regarding the other elements of the process, there are different opinions on how much a factor can influence the success of the transaction. McCrostie and Driessen (2013) suggest that a higher price can be achieved if a compelling value and growth story is formulated for each buyer in order to show how a transaction would create value. It is questionable as to what extent this is practicable, as bidders, in any case, will perform their own analyses on the potential synergies. Under the concept of value distribution, it is mainly discussed how important it is to force the bidder to include the value created through synergies in a competitive bid (Andrade, Mitchell, and Stafford, 2001). From a confidentiality point of view, it may seem preferable to invite, if known, one single bidder with the highest synergies, but there remains the challenge of forcing the bidder to include the created value in the offered price. While advisors try to increase negotiation power by creating competition through an optimized, auction-like process (Hansen, 2001), there is empirical evidence that the emergence of a competitive bidding process could much more depend on the current market conditions than on anything else (Andrade, Mitchell, and Stafford, 2001). Further, as important it may be to overcome different perceptions of the value of a target company by means of earn-out payments (Cain, Denis, and Denis, 2006), each party must also be aware of the price limit where pulling out of the deal is the better choice. From a bidder's perspective, the maximum price that can be considered is estimated based on the enterprise value considering all post-acquisition synergies (Damodaran, 2003). Valuation was expected to remain a major issue in most transactions, and advisors have to help their clients in understanding the value of the company under different concepts. The outcome of the transaction has been analysed with respect to the monetary and non-monetary components of the deal. Besides the price paid, another straightforward, quantitative measure for success of the process is the time from initiation to closing. This is in line with Defren, Wirtz, and Ullrich (2012), who defined the measures of success to be the selling price, speed of negotiations, and transaction certainty. They further comment on

seller warranties as a possibility to mitigate a deal breaker and successfully close a transaction. The table below illustrates how the questions asked in the interviews (triangulated by questionnaires to clients) relate to the 10 main elements to be studied. The elements to be studied can be considered to be the units of analysis. However, key success factors and the outcome of the divestment process also have been analysed in the full context of each of the five cases. For each key success factor, there are multiple data points, making it possible to answer the research question.

Table 3 Elements to be studied

<i>Elements to be studied</i>	<i>Before indicative offers</i>	<i>Before due diligence</i>	<i>After closing</i>	
	<i>Interview and questionnaire</i>	<i>Interview and questionnaire</i>	<i>Interview and questionnaire</i>	<i>Available deal documentation</i>
<i>Key success factors</i>				
Increasing negotiation power by creating competition	Q2: Divestment process set up to maximize negotiation power?	Q4: Number of bidders invited to conduct a due diligence and under what conditions?	Q1: Outcome of the due diligence and final offers?	
Initiating the sales process under favourable market conditions	Q8: Opinion of market conditions for divestment?	Q1: Change in the perception of market conditions and the value of the target company?	Q3: Change in the perception of the value of the company and of market conditions?	Market studies conducted
Selecting a group of bidders with the highest potential synergies	Q3: Contacting strategy, type of potential buyers, and number of parties to be contacted?	Q2: Number of offers from what type of bidders?		
Inviting financial investors to the bidding process	Q3: Contacting strategy, type of potential buyers, and number of parties to be contacted?	Q2: Number of offers from what type of bidders?		
Increasing the transparency of target company information	Q4: Flow of confidential information?	Q4: Number of bidders invited to conduct a due diligence and under what conditions?	Q1: Outcome of the due diligence and final offers?	
Controlling information dissemination to potential bidders	Q4: Flow of confidential information?		Q2: Issues of confidentiality when disclosing information to potential buyers?	
Articulating a compelling value and growth story for each buyer			Q6: Buyer's net result and long term value creation?	Profile or memorandum
Optimizing the auction process used in the divestment	Q2: Divestment process set up to		Q7: Divestment process management	

	maximize negotiation power?		and negotiation power optimization?	
Overcoming price differences using earn-outs	Q7: Offers expected to be above, below, or in line with the valuation?	Q6: How to overcome differences in perception of value?	Q4: How to address and overcome deal breakers?	Deal factsheet
Identifying and mitigating potential deal breakers		Q5: Main reasons why the transaction could still fail and how do you mitigate these risks?	Q4: How to address and overcome deal breakers?	
<i>Additional information</i>				
Measurement of success	Q5: How much is the company worth to its current owners? Q6: Methodology and assumptions of valuation?	Q3: Premiums and discounts compared to previously conducted valuation?	Q5: Was it a good deal from a seller's perspective with the best possible buyer?	Deal factsheet
Others	Q1: Decision process and reason for divestment?		Q8: Perception of the work and value of the M&A advisor?	

As previously discussed, the success of the transaction has been mainly measured based on the valuation paid, although it also considers the timing of the transaction and risks to closing. As the clients and advisors were also asked how they perceive the success of the transaction, objective data has been complemented with subjective answers by the parties involved.

4.7.2 Analysis and processing

Miles and Huberman (1984) note that it is very challenging for a researcher to show how final conclusions were drawn, from very comprehensive field notes. The data provided by the structured interviews, questionnaire responses, and available documentation have been systematically analysed in order to validate the existing theories and to learn more on how sellers try to optimize the outcome of the transaction. Following Meyer (2001), the chronology of the cases has been established and, then, the data was coded into phases and themes reflecting the contextual factors. Then, the different cases were compared, while contrasting the particularities and differences in outcomes. The responses by M&A advisors to the survey have been analysed using simple spreadsheets producing descriptive statistics with regard to the relative importance of key success factors. The following structured interviews with advisors have been mainly studied qualitatively by the researcher, while analysis was conducted without employing frequency and concordance results. A qualitative assessment has been considered appropriate, as the discussion includes information at both an obvious level and at a non-obvious sub-level (Meyer, 2001). The

questionnaire responses by sellers have been compared to the corresponding information given by the advisors in the structured interviews. In addition, the deal and process documentation has been used to triangulate the data obtained, and to obtain a complete view on the process and outcome of the transaction. Following Yin (2014), a combination of strategies was used, not only relying on theoretical propositions, while first developing a case description, and using both quantitative and qualitative data to examine rival explanations. The combination of quantitative and qualitative analysis approaches to the interview data allowed for a certain degree of triangulation (Bryman and Bell, 2007).

In addition to the mainly qualitative approach a more quantitative content analysis has been conducted. For the purpose of frequency and concordance of results, the approved transcripts of the interviews have been analysed. In line with Krippendorff (2013) (1) the data analysed are the statements made by the advisors in the structured interviews, (2) these statements have been analysed without considering endorsement by seller questionnaires and deal documentation, (3) the sample is limited to a population of M&A advisors active in the smaller mid-market segment, (4) the context of this analysis is the multiple case studies, (5) the analysis is limited to objective property of statements made by the advisors, (6) this involves determining the frequency of the statements in order to draw inferences about their importance to the participants. It has to be recognized, that value drivers in the divestment of a privately held company are difficult to operationalize as measurable variables. Further, data on private transactions are very limited and information on takeovers is generally restricted to reported deal data, not including the detailed information necessary to understand the whole divestment process. The research design allowed for the collection of a richer data sample and, in line with Eisenhardt (1989), within case analysis and cross case analysis have been conducted to produce business-relevant findings. In the within case analysis, the research has focused on gaining familiarity with the data and understanding the occurrence of each divestment process. In the cross case analysis, the 10 key success factors, being identified as the dimensions, and the success of each divestment process, were compared. The appendix section includes a protocol of the data analysis and processing from field note to final conclusions. Following Meyer (2001), the main findings from the multiple case studies have been compared to existing theory, for analytical generalization.

In addition to answering the above research question with the main results and revelations from the case studies, good practice has been formulated and an additional foundation for further research has been generated. It has been established that, once inductive research provides some possible answers, deductive research can be used to great effect in testing these and developing them further where appropriate. It has to be noted that the subjectivity of participating M&A advisors could have affected the accuracy of the obtained data. Further risks to the validity of the results, identified in the data collection process, are highlighted in the introduction to the multiple cases studies and the final chapter on limitations and further research.

4.8 Research ethics

The information obtained under the research project is highly sensitive and has been treated with the greatest confidentiality. The researcher is an experienced corporate finance professional and is familiar with good practice non-disclosure agreements (NDAs) and communication procedures. Professional conduct and integrity has been assured in interaction with all parties directly or indirectly involved in the research project. The researcher does not draw any business benefits from the information obtained, and potential conflicts of interest have been avoided. The researcher would disclose any ethical issue to all participants and to the Edinburgh Business School. Due to previous experience in the field, the researcher's observations and interpretations can be biased. However, the standardized set-up of the data collection and analysis has helped to increase objectivity.

Even if non-disclosure agreements are signed upon request by the participants, in most cases, participants preferred not to reveal their clients' identities. Data collection with the help of M&A advisors participating in the multiple case studies created an additional level of potential selection bias. Further, the data from interviews conducted with M&A advisors is potentially biased by the advisor's perspective and personal objectives. Under the concept of multisubjectivity, the data collected from client questionnaires and deal documentation has been used for triangulation. However, the data from client questionnaires has also been collected through the participating advisor. Therefore, the research project remains highly sensitive to the honesty of participants. Further, the researcher had to be highly sensitive to the dynamics of the relationship between the M&A advisor and its client in order not to influence, in any way, the divestment process.

The identity of M&A advisors is not to be disclosed in any publication, in order to allow for a critical analysis of their work. Interview scripts, questionnaire answers, and deal documentation are, therefore, not included in the appendices. Sufficient materials from the data collection process are being kept on record in order to prove that no facts or opinions are misrepresented. An anonymized list of data sources is included as an appendix. Honesty and ethical behaviour with all parties directly or indirectly involved in the research project protects the reputation of the researcher, M&A advisory firms participating in the research project, and Edinburgh Business School as an academic institution. The research project has been conducted with the highest academic rigor and in full compliance with the regulations of the Edinburgh Business School, Heriot-Watt University.

4.9 Methodology summary

The main elements to be studied in order to answer the research question have been drawn from previous studies and have been endorsed by means of an initial questionnaire sent out to a larger sample of M&A advisors. Then, multiple case studies have been conducted with M&A advisors and their clients, in the process of divesting a privately held company. Three structured interviews have been held with each participating M&A advisor along the major phases of the divestment process, while their clients answered the equivalent set of questions by means of anonymous questionnaires. The results have been complemented with deal and process documentation. The rich set of qualitative and quantitative data has been analysed through both a within case analysis and a cross case analysis. Common elements have been established and differences explained in a significant manner. This methodology is most adequate to obtain a better understanding of how the consideration received in the divestment of a privately held company can be maximized. In addition to answering the research question, the results are useful to define good practice and guide further research. A larger sample will have to be studied, however, in order to generalize the findings to a wider population.

5 Data collection and analysis

5.1 Survey-based study

As described in the methodology section, a survey has been conducted with an international sample of professional M&A advisors, in English language. The objective of this survey-based study was

to confirm that these key success factors, drawn from the existing literature, were considered important by a larger sample of professionals. The final version of this survey was sent out by the end of February 2015 to FirmA and FirmB for internal distribution to their senior advisors. Further, 50 M&A advisors from the researcher's professional network in Europe and the Americas were contacted at the same time. This has to be considered a convenience sampling with the objective to create a sample comparable to the one used in the multiple case studies where two advisors from FirmA and two from FirmB, as well as one independent advisor with an investment banking background participated. An earlier version of the survey was circulated before the initiation of the multiple cases studies. While the answers of 41 participating professionals endorsed the researcher to focus on the selected elements to be studied and no contradictions with the results of the final version have been identified, no statistical analysis has been conducted due to the nature of the data received.

The M&A advisors contacted were all asked to answer an anonymous online questionnaire with the title 'The success factors for the divestment of a majority stake in a privately held company (sale), at the highest possible price' and containing the following statements:

1. It is important to increase negotiation power by creating competition in the divestment process
2. It is important to wait until the market conditions are favourable to initiate the sales process
3. It is important to contact a well-selected group of bidders with the highest potential synergies
4. It is important to invite financial investors with access to low cost leverage, to the bidding process
5. It is important to be fully transparent in the company information disseminated to potential buyers
6. It is important to cautiously control information dissemination to potential bidders
7. It is important to articulate a compelling value and growth story for each buyer
8. It is important to optimize the auction process used in the divestment
9. It is important to use earn-out payments as part of the consideration in order to overcome differences in valuation
10. It is important to identify and mitigate potential deal breakers in the divestment process

Following Likert (1932), the M&A advisors were asked to indicate for each of the above statements whether they agree or disagree, selecting from the below scale:

1. very strongly agree
2. strongly agree
3. agree
4. neither agree nor disagree
5. disagree
6. strongly disagree
7. very strongly disagree

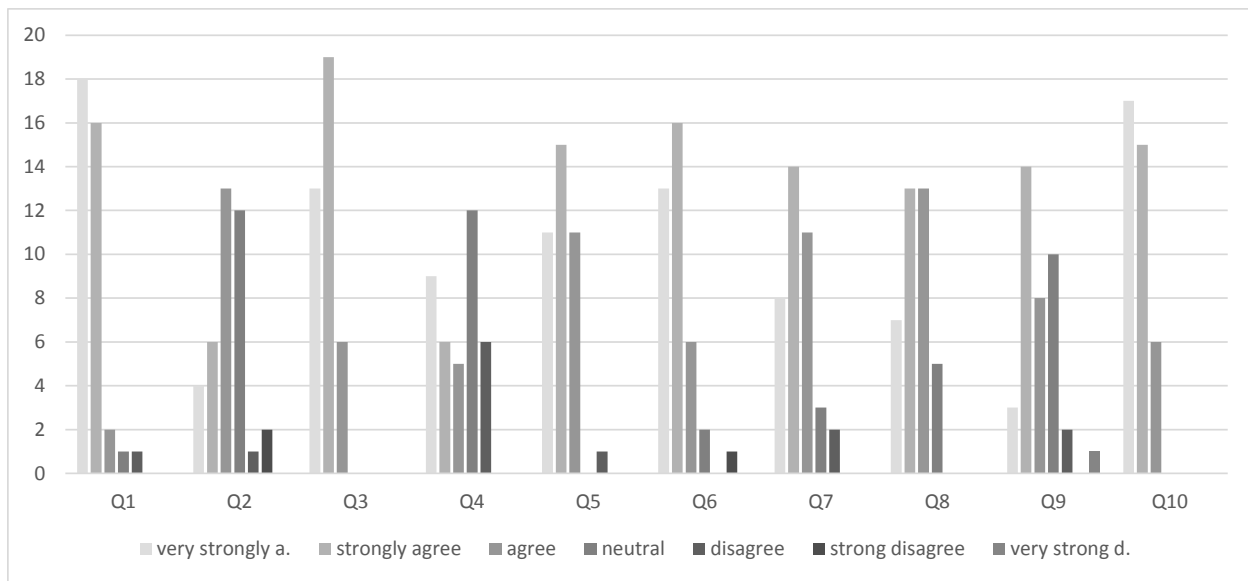
This seven point Likert scale with the mid-point 'neither agree nor disagree', is in line with most recent findings on research methodology (Allen and Seaman, 2007). Finally the below open question gave the participants the opportunity to add any other relevant key success factor:

If in your opinion there is any additional, equally or more important key success factors to be considered, please describe them below.

By the end of March 2015 when the survey officially ended, 38 M&A advisors had participated indicating their level of agreement to all ten statements. Only eight participants added a key success factor as reported in the appendix and only one of them was mentioned twice: 'Building trust between the seller and the buy-side'. In the multiple case studies data collection was limited to the sell-side. However, this potential key success factor is indirectly studied by the elements related to factor 5 (increasing transparency of target company information).

As the data collected from the survey has to be considered non-parametric, there is no clear measure of distances in this rating scale. However, the ratings given by the 38 participants, as shown in the chart below, endorse the importance of the key success factors in the divestment process.

Figure 1 Survey ratings



It can be concluded that all key success factors identified are perceived to be important by the M&A advisors participating in the survey. The highest relative importance have the factors 1, 3 and 10. In the case of factor 1, increasing negotiation power by creating competition, 89% of the participants very strongly or strongly agreed. 84% of participants very strongly or strongly agreed with the importance of 3 (contacting a well-selected group of bidders with the highest potential synergies) and also 85% with f10 (mitigating potential deal breakers). However, there was clearly less agreement on the importance of key success factors 2, 4 and 9. In the case of statement number 2, initiating the sales process under favourable market conditions, 32% of participants neither agreed nor disagreed and 8% disagreed or strongly disagreed. It has to be considered that M&A advisors cannot influence market conditions and, therefore, would sometimes have to recommend that their clients delay a potential divestment should they consider favourable market conditions to be a key success factor. As outlined in the literature review, there is evidence from public transactions that market conditions are factors driving acquisition prices paid (Andrade, Mitchell, and Stafford, 2001). In the case of statement number 4, inviting financial investors to the bidding process, 32% of participants neither agreed nor disagreed and 15% disagreed. In the existing literature, it is suggested that even if they usually do not have any synergies, private equity investors can be an attractive counterpart for privately held targets, using their expertise in order to minimize the cost of capital (Ivashina and Kovner, 2011). Financial investors can also be simply invited to increase competition in the bidding process, a factor that has been perceived to be

important by a vast majority of the participants, as 89% very strongly agree or strongly agree with statement 1. In the case of number 9, use earn-out payments as part of the consideration in order to overcome differences in valuation, 26% of participants neither agreed nor disagreed, 5% disagreed and one participant very strongly disagreed. Interestingly, there is a strong correlation between the participants' agreement with statement number 2 and statement number 4, as presented in the below table on Spearman's rank correlations.

Table 4 Spearman correlation

	Q1	Q2	Q3	Q4	Q5	Q6	Q7	Q8	Q9	Q10
Q1	1.000	0.320	0.660	0.399	0.674	0.653	0.276	0.444	0.320	0.639
Q2		1.000	0.411	0.502	0.371	0.384	0.460	0.640	0.651	0.445
Q3			1.000	0.577	0.643	0.566	0.236	0.497	0.329	0.678
Q4				1.000	0.365	0.368	0.349	0.531	0.472	0.420
Q5					1.000	0.576	0.234	0.403	0.346	0.545
Q6						1.000	0.365	0.362	0.432	0.586
Q7							1.000	0.528	0.340	0.497
Q8								1.000	0.353	0.550
Q9									1.000	0.321
Q10										1.000

For this non-parametric data, the Spearman's rank correlation between all statements is significant at a 90% confidence level, for this sample of 38 survey participants. Correlations of 0.491 and above can be considered strong, as they are significant at a 99% confidence level. The main observation is that there is a strong correlation between statement 1 and 10, mitigate potential deal breakers in the divestment process, which both have strong correlations with statement 3 (contacting a well-selected group of bidders with the highest potential synergies), statement 5 (being fully transparent in the company information disseminated to potential buyers) and statement 6 (cautiously control information dissemination to potential bidders). As the level of agreement was very high for all of these statements, it can be concluded that an important percentage of participants would intent to increase competition amongst well-selected strategic bidders, transparently inform but in a controlled manner and try to mitigate potential deal breakers, in an optimized divestment process. M&A advisors participating in the survey-based study clearly agreed with the importance of both, transparency (97%) and confidentiality (92%) and there is also a strong correlation between the two factors. This is in line with the results of the multiple case studies discussed in the later chapters of this thesis and indicates that the professionals do not see

a contradiction between increasing transparency and rigorous control over the information disseminated.

The final result of the survey-based study is an endorsement to include all 10 key success factors in the multiple case studies. The participating professionals confirmed that they are important, which has also been derived from existing literature. The limitations of the survey is the potential selection bias due to convenience sampling and the fact that the M&A advisors' perspective cannot be completely objective. Part of the analysis of the much richer data from the multiple case studies has been used to address these limitations, as additional data points for triangulation were collected.

5.2 Introduction to multiple case studies

5.2.1 Methodology and sample

As explained in the methodology section, the objective of the study is to understand the factors determining the value extracted by sellers and how these success factors can be optimized. The 10 key success factors, drawn from the existing knowledge base and endorsed by professional M&A advisors by the means of a survey, have been addressed in multiple case studies. In the five cases studied, shareholders of privately held companies mandated professional M&A advisors to conduct a divestment process. The five cases have been studied individually (within case analysis) and then compared to each other (cross case analysis) in order to identify common patterns and differences. The samples consisted of five companies in an on-going divestment process, each being accompanied by a different M&A advisor. As explained in the methodology section, the sample was constructed according to access and availability. As foreseen, the target companies have not directly been contacted by the researcher, but through their M&A advisors. Two M&A advisory firms have participated with two projects, and a fifth project has been included, as an independent M&A advisor agreed to participate in the study.

Table 5 Overview of participants

M&A advisor	Advisory firm	Region	Target company
Advisor1 & 6	FirmA	Continental Europe	VIEW
Advisor2	FirmA	Continental Europe	ENFANTS
Advisor3	FirmB	North America	AUTOBAHN
Advisor4	FirmB	North America	PACKAGE
Advisor5	Independent	Continental Europe	WINDOW

At FirmA, Advisor1 had to hand over the responsibility of the project VIEW to Advisor6, as the divestment process was significantly delayed and responsibilities within the firm had to be redistributed. Over the whole data collection period, four advisors were located in Continental Europe and two advisors in North America. The advisors were based in five different countries, all within a short drive or flight away from the clients and their companies. In order to assure maximum confidentiality, the countries of incorporation of the advisory firms and target companies are not disclosed in this study.

The target companies' activities are briefly described in the case descriptions, and the sector in the table below has been defined based on the company description.

Table 6 Overview of target companies

Target company	Sector	Owners	Start contacting
VIEW	Internet business	Private individual	January 2013
ENFANTS	Childcare	Private individuals	May 2013
AUTOBAHN	Software business	Private individuals	February 2014
PACKAGE	Packaging	Private individual	December 2013
WINDOW	Furnishing	Private individual	January 2014

The owners of the target companies were, in all cases, private individuals who founded the company and were still actively involved in its management by the time the investment process was initiated. While the size of the target companies varied widely, their advisors' stand-alone valuation was, in all cases, between USD 9 million and USD 50 million. This puts them in the lower range of the mid-market deal size segment as defined by Mergermarket (2013), as transactions in the range of USD 10 million to USD 250 million. Further, in all cases, up to 100% of the company's shares were for sale, subject to acceptance of a formal bid by the sellers. The transaction structure and relevant shareholder agreements in place have been discussed in the description of each case. The five cases have all been observed for a period of at least six months, whereas the first target company initiated its investment process in January 2013 and the last one was offered to potential buyers in February 2014. The detailed timing of the divestment process and data collection is part of each case description.

Because the researcher had to contact M&A advisory firms and ask them to participate, there are two levels of selection bias. The M&A advisory firms participating were not randomly chosen and they were able to choose which clients they wanted to ask to participate in the study.

The challenge consisted not only of finding participants but also of having them agree to the terms of participation. The chosen approach overcame the limited accessibility of data with the smallest possible compromise on the outlined data collection process. The selection bias is limited as the divestment process was unknown by the time the projects for the case study were selected. Data collection started before the indicative offers were submitted by potential buyers and, before that, the probability of closing is difficult to estimate. Given the constraints on time and resources, the best possible sample was constructed in order to answer the research question for this study. Despite the disclosed limitations, the rich qualitative data collected in the multiple case studies has allowed for a comprehensive analysis and a better understanding of the divestment process of privately held companies.

5.2.2 Data collection

The timing of the data collection process had to be adjusted to match the advancement of each observed divestment process. However, only those divestment projects were considered where potential buyers were contacted before the end of March 2014. The data collection was terminated by August 2014, ensuring that every project was observed for at least six months after the contacting phase of the divestment process was initiated. As described in detail in the methodology section, the advisors have contributed to the study by their participation in one-on-one structured interviews, while their clients have answered the questions in writing through an anonymous questionnaire. Deal documentation has been collected at the end of the divestment process, for additional triangulation of the obtained data. Even if deal documentation was, in some cases, more limited than expected, for all transactions, the description of the company provided to potential buyers (blind profile and/or memorandum) in addition to a factsheet of the process and the transaction were submitted. In order to minimize the potential bias in the collected data, three sets of questions (interview and questionnaire) have been asked according to the timing described in the methodology section:

1st set of questions: Before indicative offers are received, so that the advisor and client do not know the content of the offer, such as the valuation of the target company and conditions for closing.

2nd set of questions: After indicative offers have been received, but before due diligence has started, and so, before all potential deal breakers have been addressed.

3rd set of questions: After the closing of a transaction or when the divestment process is abandoned and all questions regarding the outcome of the divestment process can be answered.

While academic rigor was of the highest priority when conducting the multiple case studies, the business priorities of the participants had to be respected. Any deviation from the outlined data collection process is disclosed in the description of each divestment process. It was anticipated that not all projects were going to be successful. For aborted transactions or any other special circumstances, the final set of questions had to be adjusted, while remaining in line with the questions asked in the case of a successful closing of the transaction. While the divestment process of VIEW simply did not advance to the final stage of negotiations, PACKAGE's shareholder decided to put the divestment project on hold. Further, there are several general observations regarding the chosen methodology.

In all the five cases, the client questionnaires with the second set of questions were not answered in time. In general, it became clear that the time window between the reception of the last letter of intent and the start of the formal due diligence process is according to the participants not appropriate for data collection. While it is in the seller's interest to wait until all indicative offers have been received before inviting the most likely buyers to conduct a due diligence on the target company, once this decision can be made, all involved parties try to move forward as quickly as possible, leaving little time for their participation in any non-business related activity such as this study. In addition, depending on the offers received, the advisors and their clients can feel a superior level of stress or pressure. This is also why advisors were not always able to find the time for the second interview. In general, the milestone they considered appropriate for the second set of questions to be distributed was rather the end of the due diligence, when binding offers are submitted, rather than its beginning. Therefore, rather than the initial outline of the data collection, the below table better describes data collection during the divestment process:

Table 7 Overview of the data collection timing

Divestment process	Milestone	Data collection	
Contacting phase	Letters of intent	1 st advisor interview	Client questionnaire 1
Due diligence phase	Binding offers	(2 nd Advisor interview)	Client questionnaire 2&3
Negotiation phase	Transaction closed	3 rd Advisor interview	

Another difficulty of the data collection process was in granting anonymity to the participating advisors' clients. Some sellers, however, preferred to answer the questionnaire with the support of the researcher, renouncing their anonymity. The advisors were instructed not to assist their clients when answering the questionnaire, even though this could not be controlled. Finally, two advisors preferred not to have their interviews recorded, which made it necessary to reduce the transcripts to the actual questions asked, answers given, and statements made. No information with regard to the divestment process has been omitted, but the wording has been simplified. Even if this reduced the richness of the data collected, as transcripts were validated by the participants, the risk of major deficiencies is marginal. Interviews were conducted in English unless the language of the interview is indicated. Any translations made by the researcher have been confirmed by the participants as approved transcripts were written in English.

It has to be noted that the main sources of information in all cases were the advisors and that the researcher had no other choice than to completely rely on them in the data collection process. Most of the qualitative data relevant for the analysis has been generated from the structured interviews. The client questionnaires have been mostly answered with very brief statements and, sometimes, it appears that questions were not exactly understood. In the data analysis process, information has only been considered a fact if the advisors' statements could be corroborated with answers from the client questionnaires or information drawn from the deal documentation, as described in the process of data analysis (appendix 4). This does not eliminate the risk of data manipulation by advisors but allows us to distinguish corroborated evidence from mere opinions. In addition, while advisors could have withdrawn from the study or asked for specific questions to be omitted, this did not occur. Most likely, this is because none of the questions was perceived as interfering with the participants' business objectives. With the assurances that all publications will use anonymized data, the researcher, after having collaborated with the participants for several months, is confident that the data provided is reliable in the sense of representing the true opinions of the respondents at the time they were gathered. While recognizing the imperfections of the data collection process, the researcher is confident that all of these were identified and anticipated during the design stage, with substantial mitigation of the risks being achieved through careful implementation of data collection.

5.2.3 Data analysis and presentation of results

The information used in description and comparison being sourced from interviews with advisors, client questionnaires, and deal documentation, corroboration by a second source has been the most important means of triangulation. In order to distinguish fact from opinion, indirect quotes or referencing are used if a statement or information has not been corroborated, as detailed in appendix 4. Even if there is a second data point from the same source, such as, for example, the same statement in two different interviews, the information is considered opinion. The resulting descriptions of the five divestment processes highlight the priorities and perspectives of the advisors and clients, which can be different. Any contradictions are directly addressed in the case description. In order to assure confidentiality all the names of people and companies involved as well as any information that could help to reveal their identity have been replaced by the name of the project, COUNTRY, or CITY. If the opinion or perspective of the seller and the advisor is addressed at the same time, they are referred to as the sell-side, whereas the buy-side refers to the buyer and any related party in the context of the divestment process.

The case analysis chapters present the final results of both the within case and cross case analyses as described in appendix 4. As described in the methodology section, in the within case analysis, the researcher has focused on gaining familiarity with the data collected and understanding the occurrence of each divestment process. In the cross case analysis, the 10 key success factors and the success of each divestment process were compared. As a result, the most important differences and similarities that have been observed are reported. It is important to note that the order applied to the presentation of results is not related to the data analysis process as described in appendix 4. The conclusions with regard to the optimization of the key success factors and the success of the divestment process, presented in the case analysis chapters, are the results of the full data analysis. Therefore, the numerically coded statements have to be understood as relative to the conclusions from the other four cases and the best possible optimization of each success factor, as concluded from the study.

The main elements of the divestment process that have been studied are the key success factors for price optimization. With this focus, the data collection and analysis have been reduced to information relating to the optimization of these key success factors, consisting of the intention to optimize and the implementation. Based on the within case and cross case analyses, a conclusion

has been made with regard to the optimization of each key success factor in the five cases. In order to simplify the comparison of these conclusions, a numeric code has been assigned to the conclusions as per the table below.

Table 8 Codes for optimization of key success factors

Code	Intention	Implementation
1	no intention	no implementation
2	limited intention	limited implementation
3	intention	implementation
4	strong intention	strong implementation
5	very strong intention	very strong implementation

In order to analyse the outcome of the divestment process, its success has to be assessed. In line with Defren, Wirtz, and Ullrich (2012), who define the success of a divestment as a combination of selling price, speed of negotiations, and transaction certainty, more than just the valuation offered has been analysed in the multiple case studies. The time from the moment the divestment decision is made until the transaction is closed has to be minimized as it can result in opportunity cost.

For the purpose of this study, it has been anticipated that, six months after the initiation of the divestment process, a transaction will be closed. Even if a failure to close within this timeframe does not necessarily indicate that the target company could not be sold later on, sufficient data has been collected after this period in order to assess the intermediate outcome of the divestment process. With regard to minimizing the risk of not closing, only failure to close a deal for the wrong reasons was considered. In this case, the wrong reason means that two parties were prevented from closing a transaction even if they potentially could have found an acceptable agreement on the terms of the deal. Extracting value and price optimization from the seller's perspective is maximizing the consideration received for the shares sold. The first assessment is the comparison of the acquisition price offered to the stand-alone valuation of all assets that are included in the transaction. If the stand-alone value or the private value of the company to its current owner is higher than the value the target company has for any of the bidders, a divestment scarcely makes economic sense. Another way of evaluating an offer is by using the implied earnings multiple, which can be compared to the earnings multiples of similar transactions. However, depending on the transaction structure, the valuation offered does not correspond to the actual consideration received by the seller. If, for example, only part of the shares the seller offers are actually sold, the

proceeds are lower, while the shares remaining in control of the seller cannot necessarily be sold at the same price. Further, any kind of deferred or conditional payments have to be analysed in detail to assess if the actual proceeds of the transaction are optimized or if the valuation offered is lower when additional time and risks to payments arise. Besides earn-out payments, personal guarantees from the seller can result in a lower cash consideration than foreseen at the closing of a transaction. Therefore, besides the assessment of the valuation offered in an acquisition, the optimization of proceeds from the transaction also has to be considered. Further, the researcher's conclusions with regard to the success of each divestment process have been assigned with a numeric code. When analysing the outcome of the described divestment processes, the valuation and proceeds that result in maximized consideration are considered together with the time and risk to closing, as indicated in the table below.

Table 9 Codes for optimization of success

Code	Valuation and proceeds	Timing and risk
1	no optimization	no optimization
2	limited optimization	limited optimization
3	optimization	optimization
4	strong optimization	strong optimization
5	very strong optimization	very strong optimization

It has to be noted that numerically coded statements with regard to key success factors and outcome of the divestment process are not to be understood as a rating of the work of the advisor. In the case of optimization of success, the conclusion, however, is a measure of the outcome. Clearly, every divestment process is a different and independent case, as were the target companies and their market environments. However, it was possible to improve the understanding of the divestment process and define, for each element of the process, a best possible practice approach. For better illustration averages of the codes for qualitative conclusions are presented, without claiming that such indication can be considered a quantitative measure.

The data analysis has been conducted systematically, using the same steps of analysis throughout the analysis of the five cases. While the conclusions remain to a certain degree subjective, the combination of within case and cross case analysis using the same criteria and wording, was useful to gain an understanding of similarities and differences in the multiple cases. For further triangulation, a content analysis of the approved interview transcripts has been performed. Following Schulz (2012), sentences from interview answers were broken apart and coded as

statements so that it could be analysed how many times a statement was made. As participants were asked to make statements about the key success factors and other elements to be studied, according to Table 3 and Table 4, the content analysis includes (1) a comparison of how many times a statement regarding an element to be studied was made, versus how many times participants were asked to make such a statement; and (2) what percentage of each category of statement was made in direct response to a question.

The presentation of results starts with five short case descriptions. The projects have been described individually starting with an introduction to the case, which includes a company description and a table comparing the timing of the divestment process to the effective data collection. Then the divestment process and its outcome have been described in the two sections summarizing the four major stages of a divestment process. An overview of the results generated in the within case and cross case data analyses serves as an introduction to the data analysis. The five case analyses and the following comparative analysis are all structured by the 10 key success factors and the outcome of the divestment process. The main findings from the multiple case studies are then presented as the conclusion.

5.3 Case description VIEW

5.3.1 Introduction

Since its foundation in 2007, the company has operated an Internet platform for prediction in COUNTRY and, since 2008, through an additional legal entity in other selected European countries. Its founder was still the sole shareholder by the initiation of the divestment project. The group is one of the leading players in predictions on the Internet in Europe and currently offers access to more than 100 specialists. The services are promoted through the internet platform and delivered on the phone or by means of an online chat. Three full-time employees manage the platform and administrate all the services offered by the group.

VIEW generates more than USD 7 million in annual revenues and, with an EBITDA margin of approximately 35%, is highly profitable. Sales were expected to remain flat, and margins were expected to remain stable. When the divestment process was initiated, the management consisted only of the operationally active majority shareholder. The shareholder was offering up to 100% of the company's shares for sale, looking for a buyer with the ambition and capacity to expand to new markets by leveraging VIEW's brand and infrastructure. VIEW mandated FirmA, represented

by Advisor1 and later by Advisor6, with the divestment process, including a preparation phase before Advisor1 started contacting potential buyers in January 2013.

While the contacting phase was initiated in January 2013, a major tax issue was identified, which delayed the divestment process significantly. This is why the contacting phase had to be interrupted for almost one year, and a first indicative offer was only received by June 2014. The table below provides a detailed overview of the milestone dates of the project and the corresponding data collection dates.

Table 10 Overview of the project and data collection timing for VIEW

Stage (milestone)	Milestone date	Data collection date	
		<i>Advisor</i>	<i>Seller</i>
Contacting (letter of intent)	June 2014	March 2013	April 2013
Due diligence (binding offer)	N/A	July 2014	July 2014
Negotiation (deal closed)	N/A	July 2014	July 2014

Besides the three interviews with the advisor and the three client questionnaires, FirmA provided the researcher the memorandum that was sent out to potential buyers and a factsheet detailing the most relevant data regarding the divestment process, as well as its investor newsletter, with a selection of their current divestment projects. Further information regarding this case was drawn from FirmA's website and Mergermarket's report, 'The Mid-Market: M&A's core, 2013'.

The first interview was conducted with Advisor1 in March 2013, and a corresponding first questionnaire was filled out by his client in April 2013, with the telephonic assistance of the researcher. The second and third interviews had then to be conducted with Advisor6 in July 2014 as, within FirmA, the project responsibilities for the divestment process of VIEW had changed. By this time, an indicative offer was received, but it was certain that a potential transaction would not be closed within six months after the second initiation of the contacting phase. The seller responded to an adjusted version of the questionnaire the same month, with the assistance of the researcher on the phone. It has to be noted that the interviews were conducted in a foreign language, as preferred by the participants. However, having a very good command of written English, Advisor1 and Advisor6 commented on and approved the translated transcripts in English.

5.3.2 Contacting and valuation

Starting in January 2013, potential buyers were presented with the opportunity to acquire VIEW, a leading player in predictions on the Internet in Europe, offering access to more than 100

specialists. The founder and sole shareholder was looking for a successor with the capacity to realize the significant expansion potential of the company. According to Advisor1, the seller is a successful entrepreneur but does not necessarily have the management capacity required to further develop the company. He commented that the client had realized that he was not the right person to take the company to the next level and that, according to the Peter Principle, the business had outgrown his skills. The client made the decision to sell the company in order to start or acquire another business himself. However, the decision to initiate a divestment process was made a few weeks after having been presented with a diagnostics prepared by FirmA, including an enterprise valuation.

Then, a blind profile was distributed by means of a newsletter to FirmA's database of more than 7,000 registered potential buyers. According to Advisor1, 5000 registered contacts are private investors that could be looking at VIEW as an MBI opportunity. Interested parties were invited for a first meeting, so that they could decide whether they were interested in making an offer that was in line with the value proposed by FirmA. It was anticipated that only bidders submitting an offer acceptable to the client would be invited to conduct a due diligence. There was no selection of strategic buyers or institutional financial investors; however, the investor database includes potential buyers from both of these two types. Further, many private investors that could see the transaction as an MBI opportunity are registered in FirmA's database. According to Advisor1, it is more efficient to distribute the profile to investors that have actively expressed interest in taking over a company, rather than contacting companies that just happen to be in the same sector but might only be interested in receiving information on a competitor. The seller also commented that selected contacts from his and the advisor's network were informed about the investment opportunity.

During the contacting phase, a major tax issue was identified and the divestment process had to be interrupted until a solution could be identified and implemented. As the VAT system with regard to services offered on the Internet is different in COUNTRY and some of the markets where VIEW is operating, a tax compliant structure optimizing earnings had to be created. At this stage, the sell-side had already held meetings with potential buyers, but no indicative offers could be solicited. This is why the contacting phase had to be interrupted for almost one year, and contacting was re-initiated by the beginning of 2014. The seller commented that he understood that after having

identified a potential buyer, the final acquisition price had to be determined and after closing, a transition period would be necessary, allowing the new management to gradually take over operations. The acquisition price expected by the sell-side was indicated on the blind profile along with the main characteristics of VIEW. Potential buyers who signed a confidentiality agreement learned about the name of the company, and they were provided with a memorandum containing all the information relevant for an indicative offer. The preferred transaction structure was explained in the memorandum, and management meetings with the seller were organized for potential buyers before indicative offers were received. More sensitive information about VIEW, such as detailed traffic data from the platform, was only going to be disclosed during the due diligence, to potential buyers that were invited based on their indicative offer. According to Advisor1, the most sensitive information was the technical information on the IT platform and Internet distribution, which was only going to be handed over after the signing of the stock purchase agreement.

FirmA valued the target company at USD 14 million based on a diagnostic of VIEW and an analysis of EBITDA multiples from comparable transactions. Advisor1 described the methodology as benchmarking with 20 transactions and the validation based on adjusted accounting value plus goodwill. He further commented that a valuation of USD 16.5 million was indicated to potential buyers in order to have margins for the negotiation. The seller reported that he estimated the fair value to be USD 20 million, justified by the company's brand and network, but also that he was willing to negotiate based on this price expectation. He expected the indicative offers to be slightly below the price indicated to potential buyers, while his advisor expected them to be in line with the USD 16.5 indicated. However, Advisor1 commented that anything above USD 14 million would be an attractive offer from his perspective.

With regard to market conditions, in March 2013, Advisor1 commented that he considered it a relatively good moment to sell, even if valuations were low on the stock exchange and it was difficult to get acquisition financing. However, he considered appetite for real assets in COUNTRY high, especially because of the fiscal crisis and resulting tax situation in some of the European countries. The seller commented that an operational transition for a company like VIEW was a huge challenge, but since his company was growing to a mature market, he considered it a good time to sell. In July 2014, the market had not changed much. Advisor6 reported that,

particularly in the bidder's country, the same difficult environment favouring acquisitions in the target's country still existed. He further commented that it was a difficult project as the target company depends on a single person, management being the key success factor in this business. Even if several potential buyers were received for meetings with the seller, only one formal indicative offer was submitted. The valuation offered was of USD 14.5 million, clearly below the acquisition price of USD 20 million expected by the client and the valuation of USD 16.5 million indicated by the sell-side. However, the valuation offered was above VIEW's stand-alone value of USD 14 million, which was the result of the valuation conducted by FirmA before the divestment process was initiated in January 2013.

5.3.3 Due diligence and closing (pending)

By July 2014, one formal indicative offer from a financial investor had been received. The bidder, being the family office of the owners of a larger company with activities in an unrelated sector, did not have any synergies with VIEW but considered it a good fit with its investment strategy. However, the indicative offer had not been accepted by the sell-side yet, and certain conditions of the deal had to be negotiated. Advisor6 reported that there had been several interested parties but no other offers in writing were submitted. His client wanted to continue the search for investors, while negotiating the indicative offer received. Although the price offered was 15% below the valuation indicated by the sell-side, the main concern was the deferred and conditional payments which accounted for approximately 30% of the acquisition price proposed by the bidder. Therefore, the bidder had not been invited yet to conduct a full due diligence. The advisor commented that if an agreement could be reached before the summer vacation month of August, a full due diligence could be organized for September.

Even if the difference in value perception between the seller and bidder was not a major deal breaker, the deferred payments and potential guarantees asked for by the bidder were identified to be a risk to the transaction. According to FirmA, another important point was the value added tax (VAT) issue. Advisor6 commented that, as of that time, there was no VAT for online services provided by a company located in COUNTRY to the countries where VIEW had its activities. However, this was now subject to change and could become a deal breaker. Another potential risk to the transaction was that the bidder did not have the acquisition financing secured yet. The indicative offer still being under negotiation, the advisor considered earn-out payments to be the

only possibility to close the valuation gap, also because securing substantial acquisition financing was difficult. He commented that it was very difficult to obtain financing from banks, VIEW being an Internet based business and strongly dependent on the seller managing the company.

The advisor reported that a classic due diligence was foreseen, including a review of the target company's financial and fiduciary accounting, as well as full disclosure of the fiscal and legal aspects of the company. Further, he commented that the optimal holding and financing structure for acquisition had to be validated in this process. According to the advisor, the sales statistics and management indicators allowing the monitoring of the activities on the websites were the most sensitive information to be disclosed in the due diligence. The final terms of a potential transaction were still being negotiated. In line with FirmA's valuation presented to the seller at the beginning of the divestment process, Advisor6 reported that the offer on the table could already be attractive if no guarantees by the seller were asked for. At the same time, the advisor considered the transaction outlined in the indicative offer to be a good deal for the buyer, due to VIEW's further expansion potential. He commented that since a transaction was only possible if both parties were happy, a win-win situation had to be created. Even if the process took much longer than expected and no transaction had been completed, Advisor6 considered that the divestment process was well managed. He commented that it is always difficult to determine, at the outset, how a divestment process develops and that it was his impression that, in general, decisions were taking longer than in earlier years on the buy-side. With regard to the added value of the advisor, the seller expressed satisfaction with FirmA's work. The advisor explained that they were not merely acting as an intermediary, but were also consulting the seller. He considered FirmA's work to have global added value as they were accompanying the client through the divestment process, including due diligence and negotiations.

5.4 Case description ENFANTS

5.4.1 Introduction

In 1991, ENFANTS was founded as a children's day care centre by two partners who were still the majority shareholders at the initiation of the divestment project. The company has been addressing the growing demand for childcare services in the region with its strategically located day care centres for pre-school children and centres attending to the needs of working parents with children in primary school. After more than 20 years of continuous organic growth, the group

operates 13 pre-school and 3 primary school day care centres in COUNTRY today. ENFANTS generates around EUR 3 million of annual revenues and is, with an EBIT margin of more than 20%, highly profitable. Sales growth was expected to continue at a 4% compound annual growth rate, resulting in a substantial increase in margins. The group is privately held and has more than 20 employees working in its childcare centres. When the divestment process was initiated, the management consisted of the operationally active majority shareholders and the managing director who owned a 25 to 30% stake in nine of the sixteen centres. While the two founders were the only shareholders at the holding company level, the managing director held his shares directly in some of the operating companies consisting of two to six centres each. The three shareholders were offering up to 100% of their shares for sale, looking for a potential buyer with the management resources to capitalize on ENFANTS' positioning in an attractive market with high growth potential. It was communicated by the sell-side that the group's managing director is available for a future operational role, with or without a minority stake in the company.

ENFANTS mandated Advisor2 from FirmA with the divestment process, including a preparation phase before the advisor started contacting potential buyers in May 2013. By October 2013, the indicative offers were received and the selected bidders started their due diligence in the same month. After the due diligence process was completed in November 2013, the final negotiations led to the closing of the transaction by the end of 2013. The table below provides a detailed overview of the milestone dates of the project and the corresponding data collection dates.

Table 11 Overview of the project and data collection timing for ENFANTS

Stage (milestone)	Milestone date	Data collection date	
		<i>Advisor</i>	<i>Seller</i>
Contacting (letter of intent)	October 2013	October 2013	May 2014
Due diligence (binding offer)	November 2013	March 2014	May 2014
Negotiation (deal closed)	January 2014	March 2014	May 2014

Besides the three interviews with the advisor and the three corresponding client questionnaires, FirmA provided the researcher with the memorandum that was sent out to potential buyers, a factsheet detailing the most relevant data regarding the process and transaction, as well as its investor newsletter, with a selection of their current divestment projects. Further information regarding this case was drawn from FirmA's website, Mergermarket's report called 'The Mid-Market: M&A's core, 2013', and the Bain & Company report called 'Global Private Equity Report, 2014'.

The first interview was conducted with Advisor2 in October 2013 and a questionnaire was sent out to his client. However, the client questionnaire was not returned before the due diligence phase of the divestment process started. Upon the request of the advisor, who felt that participation in the study could be an unnecessary distraction, the data collection was then postponed until after the closing of the transaction. This was also due to constraints with regard to time and resources during the very intensive due diligence and negotiation phases of the divestment process, which advanced at a very fast pace. The seller answering the questions was reported to be the husband of the other main shareholder, also a co-founder of ENFANTS. While the first interview was conducted before the indicative offers were received, the participant had time for interviews 2 and 3 only after approximately 10 weeks had elapsed since having closed the transaction. All questionnaires were filled out by the client after the closing of the transaction, with the assistance of the researcher on the phone. It has to be noted that the interviews were conducted in a foreign language, as preferred by the participant. However, having a very good command of written English, Advisor2 commented on, and approved the translated transcripts in English.

5.4.2 Contacting stage and valuation

Starting in May 2013, potential buyers were presented with the opportunity to acquire ENFANTS, a group of 16 pre-school and primary school day care centres. The founders were looking for a successor to realize the very high growth potential of the company. For an appropriate price, they wanted to hand over the group to a larger company with management capacity or to a private investor looking for an MBI opportunity.

Advisor2 stated that subsequent to selling the company, the founders would quit their role after a transition period of up to 24 months and engage in unrelated professional activities. It was foreseen that the third director of the group, who was the managing director, would stay in the group with or without the capital stake of 25 to 30% in nine centres he owned. The seller mentioned that they had taken the decision about four years ago when they had been contacted by a buyer, and that personal reasons had also been considered. After having considered their personal priorities, they decided to sell the group.

The advisor explained that, as part of the divestment process, diagnostics of the company had been conducted by the advisor in order to determine its value. Then, a blind profile was distributed by means of a newsletter to FirmA's database of more than 7,000 registered potential buyers and to a

selection of additional potential buyers that had a strategic fit, but are not director competitors. Interested parties were invited for a first meeting, so that they could decide whether they were interested in making an offer that was in line with the value proposed by FirmA. It was anticipated that only bidders submitting an offer acceptable by the client would be invited to conduct a due diligence. No actual financial investors, such as private equity funds were contacted but through the FirmA database, many private investors who could regard the transaction as an MBI opportunity were approached. The transaction value expected by the sell-side, being EUR 6.9 million, was indicated on the blind profile along with the main characteristics of ENFANTS. The seller stated that the advisor was managing the divestment process and, in addition, only a tax advisor and, for minor roles, a lawyer, were involved in the divestment process as external advisors. He was aware of the fact that a memorandum was sent to a portfolio of buyers preselected by the advisor. Then, a series of meetings were organized in CITY, where the owners met potential buyers order to answer all the questions they had.

With regard to confidentiality during the divestment process, only potential buyers who signed a confidentiality agreement learned of the company's identity and were provided with a memorandum containing all the information relevant for an indicative offer. It is important to remember that no direct competitors were contacted. Some more sensitive information about ENFANTS was only disclosed during the due diligence, to the potential buyer that made the best indicative offer. Other than the two founders and the managing director, no employees were involved in conversations with the potential buyers.

Before having received the indicative offers, the advisor stated that the company was valued at EUR 6.9 million, including the group's real estate, as a result of FirmA's diagnostics. The methodology of this stand-alone valuation was based on SME transaction EBITDA multiples. However, in the case of ENFANTS, the advisor had to make an upward adjustment due to the company's high profitability. The client himself, on the other hand, reported that the value of the company was about EUR 4 to 5 million, considering an offer which was made two years ago, as well as the advisor's valuation and a valuation conducted by the client's tax advisor. It is very likely that the client referred to an enterprise value which excluded the value of the group's real estate. Further, the seller concluded that, based on their experience, both the tax advisor and Advisor2 used an EBIT multiple of 7x. While his client expected the highest offers to be

approximately equal to the valuation, also mentioning that they, as owners, were not overly price sensitive, Advisor2 expected the offers to be a little lower. He stated that from his experience, the bidders start with an offer of a maximum of 90% of the valuation indicated by FirmA.

When the divestment process was initiated, the market conditions were considered to be very favourable. It was an ideal time to offer ENFANTS for sale as it could be considered an avenue to enter the childcare market in COUNTRY and the region. The advisor also stated that it was an advantage to ENFANTS that the market conditions in the countries of some potential buyers were quite depressed. No one wanted to invest, for example, in French businesses at that time and, therefore, people were looking for alternatives. This made COUNTRY interesting for diversification and fiscal optimization.

By the time ENFANTS received the indicative offers, the perception on the market conditions had not changed. Therefore, the perception of the fair value of ENFANTS was also still the same. The advisor stated that there were a total of 15 interested parties who assisted in the pre due diligence management meetings. Of these, two were private investors and 13 were strategic investors operating a childcare business or a company in a related sector. After the meetings, four indicative offers were made by strategic bidders. At this stage, it was not foreseen by the sell-side to contact additional potential buyers. The prices offered were slightly lower than the valuation indicated by FirmA. Three bidders offered about 3% less than the indicated valuation and one bidder was 10% below. Especially the bidder with the lowest price had less optimistic assumptions with regard to ENFANTS's growth potential. It has to be assumed that the seller and his advisor were already considering a lower valuation than the EUR 6.9 million initially indicated, as the highest non-binding offer was EUR 6.4 million, according to the deal documentation provided.

5.4.3 Due diligence and closing

The indicative offers had all been received by October 2013. Before entering a full due diligence, all four bidders had a meeting with ENFANTS's fiduciary accountant to go through the numbers in detail, but only the most likely buyer was then invited to a full due diligence. The buyer, who was the only one to make an offer that did not require additional financing, was considered the most likely buyer. In the full due diligence that was coordinated by FirmA, no information was held back. The advisor considered that there was no reason why the transaction could still fail at this stage. This was mainly because the buyer selected for the due diligence was the only one to

pay all in cash and because no other potential deal breakers in a transaction with this particular buyer could be identified. The seller, on the other hand, mentioned that there was always a risk, even if he believed that this risk was marginal because they had already been very transparent with all the confidential information. He also insisted that the owners were not obliged to sell, and that if anything went wrong with this buyer, they could continue operating the company.

Since there was no difference in perceived value, no strategy was defined by the sell-side to overcome a price difference. Further, after the due diligence, the price offered was still the same price that was offered before the due diligence and was as expected by the seller at this stage of the divestment process. The seller added that EUR 100,000 or so would not make the difference and, therefore, a small difference in price would not have been a potential deal breaker. During the due diligence, there were only a few critical questions regarding the tax scheme. These were mainly due to the lack of understanding of tax deductions, as there are differences in the country of the buyer and COUNTRY. Therefore, there was an escrow account opened with part of the transaction value paid, so that the earn-out and deferred tax payments could be settled at the cost of the sellers. The advisor also reported that the entire due diligence was conducted in an environment of trust, and that it had been a very transparent process from the beginning, as there are not really any business secrets in ENFANTS's sector. Further, the seller commented that there was nothing highly confidential and that they only had to explain the tax system in COUNTRY, even if the buyer already had quite a good understanding of it.

Since there were still no changes in the market conditions and the business itself, the deal progressed very well and the parties were able to close it quickly. After the meetings organized with the potential buyers, the seller received offers from them. Subsequently, it was only a brief due diligence process with the buyer, and the transaction was closed in December 2013. The buyer purchased 100% of the group's equity for EUR 6.4 million, which indicated a valuation at 10.5 times the EBIT for 2013 and a 7% discount on the valuation initially indicated by the sell-side. Ninety per cent of the acquisition price was paid to the seller at closing and 10% in an agreed-upon earn-out structure, including possible deferred tax payments. It has to be noted that, after the due diligence, no price adjustment was applied, as the indicative offer and transaction value were the same.

According to the advisor, an additional asset of ENFANTS was sold in the same transaction, likely referring to the real estate that was also included in the stand-alone valuation conducted by FirmA. It was considered a good deal from the sell-side perspective. The advisor stated that this was only possible after difficult negotiations since the beginning, as they had to convince the buyer that the company was worth the price. The seller considered it a fair price, while the buyer acquired very attractive access to the market, and the former majority shareholders still work with ENFANTS during the transition period. Further, the advisor considered it a good deal from the buyer's perspective, as they had purchased the expertise in childcare and could leverage that. He commented that a good price was paid, but without including the potential synergies in the price, as those have to be realized first.

The divestment process was managed according to plan and helped to optimize the negotiation power. The seller added that the positive market tendencies helped, along with the fact that they were not forced to sell. He considered it favourable that many potential buyers had been contacted and that there was quite some interest as well as multiple offers at the same time. According to the seller, Advisor2 did a very good job. The only criticism he raised was with regard to the pricing of the mandate, which apparently was not clear to him from the beginning. Independently, the advisor's self-assessment was that he really had to know the company thoroughly in order to accompany and assist the client in the negotiations. He reported that he was selecting the most suitable potential buyers for the management meetings with the seller, while selling them the company's success story throughout the negotiations.

The seller wanted to add that the buyer was also chosen based on the best personal match with the team. Further, they considered the price to be agreeable, because the price that was suggested was finally accepted. He concluded: 'But if you sell a company after 20 years, you try to feel the acquirer, so you know in what kind of hands you leave your company. After all, it feels strange to be out'.

5.5 Case description AUTOBAHN

5.5.1 Introduction

AUTOBAHN was founded in 2003 as an online shop selling automotive parts over the Internet. Both the two brothers who were still the sole owners of the company at the initiation of the divestment process used to work for their father's repair shop, specializing in top brands for which

their clients wanted new parts. The business had been growing at 40% per year since 2006 and reported around USD 44 million of sales in 2013, with an EBIT margin of more than 10%. The company's development was based upon the long term vision of the owners of the company to become a world leader in a profitable niche market. AUTOBAHN operates with its own software and inventory system, including a payment system. When the divestment process was initiated, the management consisted of the operationally active majority shareholders. Sales growth was expected to be more than 20% in 2014, with further improving margins. The shareholders were offering a majority of the company's shares for sale, looking for a potential buyer with the financial resources to further develop AUTOBAHN's activities. It was communicated that the owners were available to continue operating the company as a management team with or without an equity stake.

AUTOBAHN mandated Advisor3 from FirmB with the divestment process, including a preparation phase before the advisor started contacting potential buyers in February 2014. By April 2014, the indicative offers were received, and the selected bidders started due diligence the month after. Upon completing the due diligence process in June 2014, the final negotiations led to the closing of the transaction by July 2014. The table below provides a detailed overview of the milestone dates of the project and the corresponding data collection dates.

Table 12 Overview of the project and data collection timing for AUTOBAHN

Stage (milestone)	Milestone date	Data collection date	
		Advisor	Seller
Contacting (letter of intent)	April 2014	February 2014	March 2014
Due diligence (binding offer)	July 2014	July 2014	August 2014
Negotiation (deal closed)	July 2014	July 2014	August 2014

Besides the three interviews with the advisor and the three client questionnaires, FirmA provided the researcher with the profile that was sent out to potential buyers and a factsheet detailing the most relevant data regarding the divestment process. Further information regarding this case was drawn from FirmB's website and the Mergermarket reports called 'The Mid-Market: M&A's core, 2013' and 'Global M&A Valuation Outlook'.

The first interview was conducted with Advisor3 in February 2014 and a corresponding first questionnaire was filled out by his client in March 2014. The second interview with the advisor was going to be conducted before the start of the formal due diligence with selected buyers.

However, except for an email with an update on the transaction sent by Advisor3 in May 2014, data collection was postponed until after the closing of the transaction. The advisor felt that participation in the study could be an unnecessary distraction at this critical stage of the process. Further there were, on his side, severe constraints on time and resources during the very intensive due diligence and negotiation phases of the divestment process, which advanced at a very fast pace. The third interview with the advisor was conducted in July 2014, the week of formal closing of the divestment transaction. The client returned the filled out questionnaires only a few days later.

5.5.2 Contacting and valuation

Starting in March 2014, potential buyers were presented with the opportunity of acquiring AUTOBAHN. The advisor described the company not as a simple e-commerce entity but as a software business operating a leading system adapted to the automotive industry. The seller pointed out that, as initially hoped, AUTOBAHN is today the leader in its highly profitable niche market with the potential for accelerated growth due to its strong positioning. Therefore, the founding owners had decided to sell the company to a buyer with the financial resources to grow the business at a faster rate. It was the founding owners' intention to cash out part of the value created since the business was launched. The seller commented that, from a personal perspective, they wanted to reduce the entrepreneurial risk and did not aspire to internal succession in the long term. The advisor added that the owners, being only approximately 40 years old, are second-generation immigrants from a modest background. They had been approached by several potential buyers and decided to sell a majority stake in the company before having contacted FirmB. It is important to note that, according to the advisor, FirmB was selected out of a group of advisory firms, all proposing to support AUTOBAHN in the divestment process.

The process was setup by Advisor3 as the target company's exclusive advisor with an initial contacting phase, where 350 potential buyers were provided with a blind profile of the company to see if they could be interested in an acquisition. For those who were interested and had signed a confidentiality agreement, a memorandum on operations and financials had been prepared as a basis for their indicative offers. The advisor reported that out of the 350 domestic and international potential buyers identified, 75 were strategic buyers and 275 were private equity funds. All of them were contacted by email within days after the initiation of the contacting phase of the divestment

process and were asked to submit an indicative offer at the same date, about six weeks later. He commented that a detailed bid instruction letter was sent out, asking for an indication of interest with the valuation range and steps towards closing based on the memorandum. It was the objective to narrow down the group of potential buyers and decide who to invite to a management meeting with the sellers. The flow of confidential information was managed by the advisor who contacted potential buyers without disclosing the target company's name before a confidentiality agreement was signed. Advisor3 reported that FirmB was very thoughtful on how much information to give, but that in the case of AUTOBAHN the potential damage from the disclosure of information was very limited. It is important to note that the price expected by the seller was not communicated to the buy-side.

While the advisor reported the fair value of the target company to be approximately USD 50 million, the seller commented that they would be willing to sell the majority of AUTOBAHN at a valuation of USD 30 million. Advisor3 commented that the target company was creating increasing economic value through its fast growth, with untapped potential. The company was only beginning to take advantage of the operational leverage due to the relatively lower fix cost. He expected margins and free cash flow to increase very significantly in the future. The target company was valued at USD 50 million by an EBITDA multiple analysis of acquisitions involving a comparable target company. The advisor commented that the EBITDA multiple analysis was most adequate in the particular case of AUTOBAHN and that even a much higher valuation would result if revenue multiples were used. He reported that FirmB considered more than 25 comparable transactions for its valuation, but also recognized that it was very difficult to anticipate how much potential buyers would offer to pay. Based on FirmB's experience in a similar divestment process, a substantial number of offers and a very wide valuation range were expected. While the seller expected the indicative offers to be in line with his advisor's valuation, Advisor3 reported that anything from 7 to 9 times EBITDA could be used as the basis for bids and that some potential buyers might use revenue multiples or a hybrid methodology resulting in EBITDA multiples of 10 or 11. In conclusion, he expected valuations with a range from USD 40 up to 90 million.

The market conditions were considered very good. The advisor commented that he could not imagine it being better, as strategic buyers were holding a lot of cash and private equity funds were flushed with cash from the highly liquid financial markets. After having contacted the 350 potential

buyers, AUTOBAHN received 48 indicative offers with a valuation between 7.5 times EBITDA and 11.8 times EBITDA. It has to be noted that all indicative offers were submitted by financial investors, which was not expected. However, no additional potential buyers were contacted after the receipt of these bids. It can be assumed that AUTOBAHN, as a software business, was more attractive to financial investors than to other companies from the same sector. This might be explained by the high growth potential the company has under the existing management. According to the advisor, the assets in place can be very attractive for someone who would like to expand into multiple markets using AUTOBAHN's infrastructure and business model. According to Advisor3, about a third of the bidders were received for management presentations while a virtual data room was being prepared and the next steps of the divestment process were planned. The seller commented that the process was fairly enjoyable, as the pre due diligence phase was not too burdensome, and that they learned much about their own business because of the questions asked by FirmB.

5.5.3 Due diligence and closing

The indicative offers had all been received by April 2014. According to Advisor3, two bidders were invited to conduct a full due diligence on AUTOBAHN, selected based on the price they offered and three main selection criteria: the added value the potential buyers could provide to the company based on their experience in the segment, the capacity to pay the acquisition price without third party financing, and the comfort level between the sellers and the potential buyers. The seller reported that it was important to them not to include interested parties with excessive due diligence requests that would interfere significantly with day-to-day business. However, there was no information being held back in the due diligence conducted by means of a virtual data room. The advisor reported that management meetings were held with 15 potential buyers who made an offer and then, five parties were selected and visited at their offices, meeting the partners and their team. The sell-side provided guarantees for the due diligence cost of the two parties invited. The agreement stipulated that the seller pays for its cost if the buyer is unable to close a deal.

The valuations initially offered were lowered after the due diligence because the company had a lower EBITDA than that budgeted for the first semester of 2014. According to the advisor, this was not due to a change in market conditions or because AUTOBAHN had any problems, but merely due to some errors in the company's budgeting process. However, it was perceived to be

the main issue and a potential risk to closing at this stage. The seller commented that the communication with regard to this issue was well handled, as potential buyers were informed about it well in advance. They also made particular efforts to achieve a higher level of sales and stay closer to the forecasted amounts. The advisor reported that the company missed EBITDA projections by 25% in the first six months, and both buyers wanted to adjust the acquisition price. While the sell-side agreed that an adjustment to the valuation needed to be made by the bidders, deferred or conditional payments were not considered by the seller as a means to overcome any difference in the perception of value. Advisor3 reported that after the due diligence was completed, one bidder made a very substantial adjustment down to USD 45 million in the enterprise value because they concluded that there was a systematic problem that caused the underperformance in the last semester. The other buyer only applied the same multiple to the adjusted EBITDA budgeted for 2014, and finally offered USD 50.5 million for 100% of the company, down from USD 55 million. Market conditions were considered to be unchanged and still very favourable by the sell-side.

With regard to confidentiality issues, the target company using priority software to predict optimal inventory did not want to disclose the algorithm they used to determine the type and level of the product to hold in inventory, to more than two buyers, as this was considered to be highly valuable information. The seller reported that they chose potential buyers that did not ask for this information to be disclosed in the due diligence. He considered the due diligence process to be efficient, as all information revised had already been disclosed in the memorandum and management presentations. The only potential deal breaker was a change in valuation based on the underachievement of budgeted earnings, and the sell-side made significant efforts to explain the difference. According to the seller, another important revelation to the bidders was that gross margins were lower than in previous years due to a change to their customer acquisition strategy.

The valuation was perceived to be attractive from the seller's perspective and the full acquisition price was paid in cash at closing. Selling only 80% of AUTOBAHN, the founders continued managing the company while owning 20% of the equity. Part of the deal was the agreed protection of the founders against a dilution of their stake. The advisor explained that the protective clause also applied to a potential capital increase for acquisitions so that the founders would end up with a guaranteed 20% stake until they decided to divest. He also reported that, for the buyer, the

acquisition was very attractive as they would be able to grow faster organically and by add-on acquisitions.

With regard to the divestment process and the added value of him as an advisor, Advisor3 reported that everything went exactly as planned. According to the advisor, FirmB helped the client in positioning AUTOBAHN as a software company rather than a product seller, which added substantially to the valuation. He commented that, due to the competitive process, a higher price was achieved and that when running into problems with earnings, the competitive environment helped to still negotiate an attractive valuation. As a final statement, he added that other advisors whom the company had talked to, had valued AUTOBAHN at around eight times EBITDA and FirmB was very confident of being able to arrange for a divestment at ten times EBITDA, which was ultimately paid, because the target company was sold as a software business and not as an e-commerce business.

5.6 Case description PACKAGE

5.6.1 Introduction

Since 1979, the company has been in the business of manufacturing and distributing a wide variety of flexible packaging solutions. The entrepreneur who founded PACKAGE and made it one of the country's well known industry leaders was still the sole shareholder by the initiation of the divestment project. Recently, the company invested in new machinery and equipment in order to improve operating profit by reducing costs and increasing efficiency. Having more than 30 years of experience, PACKAGE has more than 130 active national and international clients today. The company has mid-term contracts with its top clients and encourages long-term relationships with main customers. PACKAGE generates more than USD 25 million in annual revenues and is highly profitable, with an EBITDA margin of more than 10%. Sales growth was expected to continue at a 23% compounded annual growth rate, resulting in a further increase in margins. When the divestment process was initiated, the management consisted of the operationally active sole shareholder and a team of senior managers. The shareholder was offering up to 100% of the company's shares for sale, looking for an international buyer with the ambition to enter COUNTRY's packaging market.

PACKAGE mandated Advisor4 from FirmB with the divestment process, including a preparation phase, before the advisor started contacting potential buyers in December 2013. By March 2014,

the indicative offers were received and, in April 2014, one bidder was invited to a pre due diligence where revised financial statements were presented. After the pre due diligence, the buyer had the opportunity to adjust the indicative offer by the end of June 2014, before proceeding with a full due diligence. However, as the adjusted offer was rejected by PACKAGE's shareholder, the divestment process was put on hold. The table below provides a detailed overview of the milestone dates of the project and the corresponding data collection dates.

Table 13 Overview of the project and data collection timing for PACKAGE

Stage (milestone)	Milestone date	Data collection date	
		<i>Advisor</i>	<i>Seller</i>
Contacting (letter of intent)	March 2014	February 2014	February 2014
Due diligence (binding offer)	N/A	July 2014	N/A
Negotiation (deal closed)	N/A	July 2014	N/A

Beside the three interviews with the advisor and the client questionnaire, FirmB provided the researcher with the profile that was sent out to potential buyers and a factsheet detailing the most relevant data regarding the divestment process. Further information regarding this case was drawn from FirmB's website, its monthly newsletter reporting M&A transactions in COUNTRY and Mergermarket's report called 'The Mid-Market: M&A's core, 2013'.

The first interview was conducted with Advisor4 in February 2014 and a corresponding first questionnaire was filled out by his client in the same month. The second and third interviews with the advisor were conducted in July 2014, when it became clear that the divestment process had to be put on hold, since the only bidder that initially made an indicative offer acceptable to the seller, lowered the offer substantially. As the seller rejected the offer, he also decided not to continue his participation in the study, without giving any further explanations.

5.6.2 Contacting and valuation

Starting in February 2014, potential buyers were presented with the opportunity of acquiring PACKAGE, which had developed from a local company selling plastic bags to a major national player in the packaging industry, with international sales. According to the advisor, it used to be a business with no added value which, over the last three years, had evolved to a solution provider with more added value. This is what helped the company in increasing its market share and margins. The client highlighted the fact that his company was one of the most highly regarded packaging solution providers in the country.

It was the client himself who decided to sell the company before having spoken to an M&A advisor. This well thought decision was mainly driven by family reasons. The advisor reported that the main shareholder was approximately 70 years old and wanted to cash out the family wealth tied up in the company. The client did not want his son to work as much as he did, but considered keeping a smaller company related to PACKAGE, selling conventional plastic bags, so that his son could take it over as CEO.

The advisor managing the divestment process commented that initial meetings had taken place and an initial analysis of the company had been conducted in order to produce a valuation report. An external consultant was helping the target company to prepare the information. The client had authorized the advisor to start the process for a competitive sale. The process was very confidential. No strategic buyers from COUNTRY were contacted and only one private equity fund that had an investment in the sector was considered to be a likely buyer. Thirty strategic buyers with a good fit were contacted, and 17 of them signed an NDA in order to receive the memorandum that was provided together with a procedure letter. It was foreseen that based on their indicative offers, bidders would be invited to conduct a due diligence and make their final offer.

The advisor highlighted the fact that the teaser had been sent to 29 international buyers, mainly through FirmB's international network of M&A advisors. Further, he specified that no pure financial investors were contacted, but that, in some cases, the shareholder of a potential buyer was a private equity fund and that the only potential buyer contacted within COUNTRY was a private equity fund with a buy and build strategy in the packaging sector.

The flow of confidential information was managed by the advisor. Before signing a confidentiality agreement, only an anonymous teaser was distributed. Upon signing the confidentiality agreement, the interested party received a memorandum as a fully transparent information base for their indicative offer. Besides accounting, fiscal, and legal information, sensitive information such as client names were also going to be revealed in the due diligence. According to the advisor, the due diligence was supposed to simply confirm the information from the memorandum. It is important to note that the valuation and price expectations were not communicated to the buyers.

FirmB valued the company at USD 25 million, based on a full discounted cash flow (DCF) analysis, corroborated by multiples. The advisor commented that, besides looking at the trading

multiples of listed companies from the same sector, they also considered 12 comparable transactions. The client, however, considered USD 30 million to be the fair market value. According to the advisor, there was a misrepresentation of expenses in the financial statements initially provided, which led to an underestimation of expenses. This is why FirmB initially valued PACKAGE significantly higher. The advisor expected the indicative offers to be around USD 24 to 25 million and, therefore, in line with FirmB's valuation. The client, however, expected the offers to be higher because of the strategic synergies which potential buyers could exploit.

The advisor commented that a potential improvement under new ownership could be the acquisition of more international clients, better organization, and more transparency. He further considered the lack of transparency within PACKAGE to be a risk and an additional difficulty for a potential buyer. According to the FirmB's research on M&A activities in COUNTRY, which is published in a monthly newsletter, there was a tendency to conduct more transactions when the divestment process was initiated. This is why the advisor considered it a highly favourable time to sell.

According to the advisor, the divestment process proved rather difficult, mainly because, during the contact stage, the financials communicated to the potential buyers had to be changed. The advisor commented that there had not been any changes in market conditions and that potential buyers had expressed significant interest in the target company. There were many information requests, and two potential buyers from Europe visited PACKAGE.

The advisor reported that, in total, 15 NDAs were signed and three offers were received. All of them were from strategic bidders, with one from a bidder seeking vertical integration. One bid was close to FirmB's valuation and the two others were about 25-30% below the valuation. The advisor highlighted that projections which were used in their valuation, based on the clients input, were perceived to be quite aggressive.

5.6.3 Due diligence and closing (pending)

The indicative offers had all been received by March 2014. According to the advisor, only one potential buyer who made an attractive initial offer was invited to a pre due diligence, where they had access to the detailed accounting figures through a virtual data room. A Big4 accounting firm provided a light vendor due diligence on the financials in order to give full transparency. The

vendor due diligence report was available online in the virtual data room by the end of April 2014. Then, the bidder had the possibility of revising the offer before moving forward with a full due diligence. The advisor commented that, at this stage of the divestment process, the revised financial statements were the main issue and potential reason why the transaction could fail. For cost reasons, the sell-side first wanted to give full transparency on financials before proceeding with a full due diligence. According to the advisor still beyond this stage of the divestment process, the financials were the most important confidentiality issue, even if much information had already been provided. The only important thing that had not been covered yet was the tax. The advisor commented that they felt that, at this stage, it was not important to the bidder but of a highly confidential nature. However, he also highlighted that it was mostly because of the cost and timing, that it was not included in the pre due diligence information on the virtual data room.

Since the offer was thereafter lowered substantially, the client, initially expecting to receive USD 30 million, rejected the bid. It has to be noted that, according to the advisor during this phase, the sell-side pretended to have additional bidders. The advisor commented that when their client rejected the offer, FirmB first stopped the due diligence process and informed the bidder. The advisor also commented that he did not know the lower price limit his client would potentially accept, but that, unless the potential buyer improved the bid, it would not be possible to overcome the difference in the perception of value. The advisor reported that the bidder lowered the offer from the USD 25-28 million range initially indicated, to a USD 16-20 million range. This was mainly because certain expenses paid in cash were not fully included in the financial statements, but were only disclosed in the pre due diligence.

According to the advisor, even the revised offer was still acceptable and FirmB agreed with the bidder that the seller's projections were too optimistic. Further, some liabilities and extra costs that were not considered in the initial valuation explained the lower valuation. From the buy-side perspective, the advisor also considered it a fair deal. He commented that he did not consider it to be a bargain, but that the strategic advantages would have been very significant.

The advisor commented that the process was, in the beginning, successful in the sense that the interest of many companies could be attracted. However, he considered that the client had not been transparent enough from the beginning, which slowed down the process and made it difficult to communicate a clear investment opportunity to the buyers. From his perspective, the external

consultant helping the target company to prepare the information did a good job, but was, at the same time, an additional filter.

The advisor's perception of his own work and the value of the M&A advisor were generally positive. He made the statement that he wished they had analysed the target company in more detail, and challenged the client's information at the beginning of the process. His final statement was that the client was most likely to wait one year and, with his projections achieved, it could be advisable to talk again to the potential buyer who had made the best indicative offer.

5.7 Case description WINDOW

5.7.1 Introduction

In 1988, WINDOW was founded for the development of a highly innovative furnishing product, by a businessman with many years of experience in consumer goods marketing. The founder was still the sole shareholder, at the time of the initiation of the divestment project. The company had established itself in a highly profitable niche market and had built up its brand throughout the country as well as in some of the major export markets. After more than 20 years of continuous expansion, the group currently has 14 full time employees, of which six are in production and eight in administrative as well as sales positions. WINDOW generates around USD 6 million in annual revenues and is highly profitable, with an EBIT margin of 33%. When the divestment process was initiated, the management consisted of the operationally active majority shareholder and two senior employees in charge of production and sales. Sales growth was expected to continue at a 5% compounded annual growth rate at stable margins. The shareholder was offering up to 100% of the company's shares for sale, looking for a potential buyer with the management resources to further develop WINDOW's activities. It was communicated that the owner would still be available for a transition period of up to three years after a potential divestment.

WINDOW mandated Advisor5 as an independent consultant for the divestment process, including a preparation phase before the advisor started contacting potential buyers in January 2014. By March 2014, the indicative offers were received and the selected bidders started their due diligence the same month. After the due diligence process was completed in April 2014, the final negotiations led to the closing of the transaction by May 2014. The table below provides a detailed overview of the milestone dates of the project and the corresponding data collection dates.

Table 14 Overview of the project and data collection timing for WINDOW

Stage (milestone)	Milestone date	Data collection date	
		Advisor	Seller
Contacting (letter of intent)	March 2014	March 2014	March 2014
Due diligence (binding offer)	April 2014	April 2014	June 2014
Negotiation (deal closed)	May 2014	June 2014	June 2014

Beside the three interviews with the advisor and the three corresponding client questionnaires, Advisor5 provided the researcher with a factsheet detailing the most relevant data regarding the process and transaction. Further information regarding this case was drawn from Mergermarket's report called 'The Mid-Market: M&A's core, 2013'.

The first interview was conducted with Advisor5 in March 2014, and a corresponding first questionnaire was filled out by his client in the same month. The second interview with the advisor was conducted in April 2014, just before the start of the formal due diligence with selected buyers. However, upon the advisor's request, who felt that the participation in the study could be an unnecessary distraction at this critical stage of the process, the data collection with the client was postponed until after the closing of the transaction. This was also due to constraints on time and resources during the very intensive due diligence and negotiation phases of the divestment process, which advanced at a very fast pace. The third interview with the advisor was conducted in June 2014, after the formal closing of the divestment transaction. The client returned the filled out questionnaires only a few days later. It has to be noted that the interviews were conducted in a foreign language, as preferred by the participant. However, having a very good command of written English, Advisor5 commented on, and approved the translated transcripts in English.

5.7.2 Contacting and valuation

Starting in January 2014, potential buyers were presented with the opportunity of acquiring WINDOW, a well-positioned niche player in the furnishing industry, from its founder. The advisor described WINDOW as a company that has embarked on quite an impressive product innovation, creating a simple product targeting, very precisely, the needs of almost every single household in the country. He pointed out that even though the main product's patent had expired a few years ago, the established brand and continued innovation had assured the company's position in a profitable niche market, with growth potential. The seller added that every retailer in COUNTRY knew WINDOW for its quality products and that the company's team was in a position to introduce additional products to the market and leverage the existing brand recognition.

The founder and owner of the company had decided to retire from his role as managing director and, therefore, wanted to sell the business. There had already been an unsuccessful attempt to sell the business two years earlier, but since then, the company had become less operationally dependent on the owner. The seller reported that since his children were not interested in taking over the company, he wanted to pass on the entrepreneurial risk to someone else when retiring from his operational role. He commented that the decision process took him about six months, and that when he first offered the company for sale two years earlier, he was still not entirely ready for its sale.

The process was set up by Advisor5 as lead advisor, with an initial contacting phase, where a shortlist of selected potential buyers was provided with a blind profile of the company, to see if they could be interested in an acquisition. For those who were interested and signed a confidentiality agreement, a memorandum had been prepared as a basis for their indicative offers. According to the advisor, his client was only willing to provide more detailed information in a formal due diligence to bidders that made an acceptable offer. It was the advisor's objective to procure all bids almost simultaneously so that his client could compare them in order to get a good feeling of what the market was willing to offer. The advisor commented that the bidding process would ideally be competitive so that the price could be optimized while forcing bidders to proceed to closing within the next three to four months. The seller commented that he was leaving the control over the divestment process to his advisor and that he remembered from the earlier divestment attempt that it would take about 2-3 months to get the indicative offers from the buyers and then, depending on their questions, another 2-3 months in the due diligence. In this relatively small transaction, besides Advisor5, only the company's accounting firm and a lawyer were involved as external advisors. Out of 20 potential buyers, 10 strategic buyers and 10 financial investors were contacted. However, some of them had been contacted two years earlier, and they had already received much information regarding WINDOW.

The flow of confidential information was managed by the advisor, who contacted potential buyers without disclosing the target company's name, before a confidentiality agreement was signed. Therefore, not even WINDOW's products were mentioned in the blind profile, as this could have revealed the identity of the target company. The advisor reported that once interested parties signed a confidentiality agreement, full transparency was in the best interests of all parties involved, even

if it would be difficult to legally enforce such a confidentiality agreement. He commented that the only damage to the company would be market rumours, as there were no big secrets to be revealed. The seller reported that the names of major suppliers and clients, as well as other sensitive information, were only disclosed in the due diligence to bidders making an acceptable indicative offer. It was also at this stage that he would personally meet representatives of the potential buyers. It is important to note that the price expected by the seller was not communicated to the buy-side.

The seller had a minimum price expectation of USD 20 million based on his sentiment with regard to profitability and market potential. The advisor reported that according to the valuation done two years earlier by the bank that represented the client, the fair value was closer to USD 15 million. He mentioned that the valuation considered the downside risk of the patents that expired at approximately the time of the first sales attempt and that, in his opinion, it could be possible to find a buyer who would offer USD 17 to 18 Million. Further, Advisor5 commented that in order to close a potential gap in valuations, some of the non-operating cash could be paid out to the shareholder before completing the divestment. The valuation was based on seven to eight similar transactions that were reported over the last five years and that all these had EBITDA multiples of 7 to 8. The advisor commented that the bank did a DCF valuation two years ago and that the projections made could be achieved for this period. However, he preferred looking at the comparable transactions rather than updating it as this was what bidders usually did. It is important to note that the advisor also reported that the similar transactions were 'not exactly comparable'.

The advisor did not expect the best indicative offers to match the seller's price expectations and he hoped that the client would lower his price expectations based on the market price indications obtained. Besides mentioning that the client was not in a position to delay succession much longer due to his health, he pointed out that hiring a manager to replace the owner operationally would increase the risk of the company and affect valuation. This, combined with the risk coming from the expired patent, made it difficult for him to justify a valuation above USD 17 to 18 million. According to Advisor5, under the new leadership, it would be more challenging to retain existing clients, and a formal management structure at an additional cost would be necessary. On the other hand, the seller expected the highest offers to be above the valuation, due to the potential synergies that buyers could exploit.

The expectation with regard to market conditions was that it would be a better moment to sell the company than two years earlier. The advisor justified his opinion with the better general economic environment and acquisition appetite announced by some of the potential buyers. As a negative factor, he identified the banks that were still very restrictive with leverage financing. His conclusion was that waiting longer would not make sense, as consumer sentiment and other macroeconomic factors could potentially worsen again and make a transaction more difficult. The seller commented that in the 90s, a company like WINDOW would have sold in no time.

After having contacted 20 potential buyers, WINDOW received five indicative offers and selected three bidders for an in-depth due diligence. The sentiment on market conditions had not changed during the contacting phase and the company was doing well, with a tendency to exceed financial projections. Out of the five bids, two were from companies with activities in the same sector and three were from private investors that were considering WINDOW as an MBI opportunity. The interest from strategic buyers was not as high as expected, but according to the advisor, this was partly because some of them had already made a bid two years earlier and already knew they could not make a competitive offer. The seller was also expecting more interest from financial investors, but commented at the same time that no additional parties were to be contacted for the time being.

At this stage, one strategic buyer offered USD 15 million in enterprise value (25% less than the seller expected) and two private investors offered a little more if foreseen earn-out payments were considered in full (15% less than the seller expected). The other offers were significantly lower, as these bidders did not share the sell-side's view on the positioning of the company after patents had expired. The advisor reported that methods were essentially the same, even if the private bidders probably based their valuation exclusively on multiples. He comments that, from his point of view, they could use a leveraged buy-out (LBO) model, but rather work with a low multiple for the cash offer and top it up with earn-out payments based on a more generous multiple. The seller reported that his advisor explained the offers to him and corroborated the above-mentioned information.

5.7.3 Due diligence and closing

The indicative offers had all been received by March 2014. Three bidders were invited to conduct a due diligence on WINDOW, selected based on the price they offered and their capacity to finance the acquisition. The advisor commented that the one strategic buyer invited to the due diligence

offered a bit less, but that it was the most likely buyer since they already knew the company from the earlier divestment attempt and the offer did not include any conditional earn-out payments as the offers from private investors did. No surprises were expected in the due diligence.

The main reasons why the transaction could still fail at this stage was the different perception of the target company's fair value. However, the seller had, at this stage, a certain preference for the all-cash offer, even if there were two higher bids. The advisor commented that he had explained to the client that the higher offers could still be adjusted and that, from his perspective, if neither the bidders nor the client changed their mind, he considered the all-cash offer made by the strategic bidder to be the deal that should go through. Further, in his opinion, it was possible to extract additional value by paying out non-operating cash before the deal was consummated. The seller commented that he perceived the prices offered to be quite low, and expressed the hope of being able to negotiate. He also reported that, despite understanding the concept of earn-out payments, he did not want to suffer from any mistakes the buyer could commit once they owned the company. With regard to the lowest price the seller should still accept, the advisor commented that he would not recommend selling the company for less than USD 15 million, unless an attractive earn-out structure could result in a higher acquisition price. The ultimate decision, however, had to be made by the client.

The advisor commented that, in order to overcome any difference in the perception of value, the conditions for the earn-out payments had to be easily measurable, and they must not create an incentive for the new owners to underperform. The example given was that if they had to pay USD 1 million in a year in which they just achieved the projected sales, they could prefer to underperform projections by any amount inferior to USD 1 million, which would generate a higher net result to them. Further, he reported that it was usually recommended that a percentage of the projected EBIT was paid, in order to allow the seller to receive the full value of the company if the projected EBIT figures were achieved. The client commented that he was convinced that he would see the projections being outperformed, and reported that he was willing to accept payments deferred for up to a maximum of three years.

The buyer purchased 100% of the group's equity for USD 19 million, which indicated a valuation at 9.5 times the EBIT of 2013 and a 5 to 11% premium over the stand-alone valuation. Of this transaction value, USD 16 million was paid to the seller at closing, and USD 3 million became

part of an agreed-upon earn-out structure. It has to be noted that, after the due diligence, the offer was increased by the buy-side, while part of the acquisition price became deferred along with conditional earn-out payments. The due diligence process and the final phase of negotiations were straightforward, with the bidder that acquired WINDOW in the end, as they knew the industry and had been in some sort of pre due diligence with the company two years earlier. According to the advisor, this earlier pre due diligence had already included accounting and operational figures, and the legal and tax due diligence were quite light as there was nothing too complex about the target company. The private investors took longer to complete the due diligence and eventually, could not compete with the strategic buyer.

The due diligence conducted was considered a classic one by the advisor, including a virtual data room, a site visit, and a management meeting with the owner of the company. The price negotiations resulted in an increase in the price by USD 1 million and, in addition, an earn-out structure that allowed the client to get almost the USD 20 million he initially had in mind. The seller commented that the only critical issues during the final stage of the process were the patents. However, he also reported that the most important ones expired two years ago and that WINDOW had maintained its level of sales for the products concerned.

The advisor commented that he was happy that his client now perceived the final valuation paid as a good deal, estimating that he would have had to work another 10 years or so to achieve the equivalent financial result. The difference in perception of value was the only deal breaker in the final phase of the divestment process. The client wanted USD 20 million and the initial offer was USD 15 million plus non-operating cash, which resulted in an even USD 16 million cash consideration received by the client at closing. In order to bridge the gap, an earn-out payment linked to the EBIT projected for the next three years was agreed upon. According to the seller, the buy-side overestimated the challenge of achieving the projected results, and his advisor commented that the risk of not achieving the projections was, for the buyer, significantly lower than for any of the private investors that had placed a bid. Finally, the deal was considered to be a good one from the sell-side perspective. Further, the party acquiring the target company was considered to be the best possible buyer, not especially because of potential synergies but mainly because of the management capacity and industry knowledge, making a smooth operational transition and further growth very likely. In addition, for the buy-side, the deal was considered to

be a good one. The advisor commented that it was difficult to say how much value was really created in the transaction, but that the additional product line and a few extra clients were to be considered a premium over the price that was paid based on the expected cash flow of WINDOW under a stand-alone scenario. The seller estimated the value created for the buy-side to be at least USD 3-5 million, feeling that the conservative projections could be outperformed to a level where, even after considering the earn-out payments due, substantial upside could be realized.

With regard to the divestment process, the advisor commented that, in theory, it was the controlled auction that allowed price optimization but, in practice, this could only work with enough interest from bidders. Further, he reported that many bids were confidential, which made it more difficult to create competition amongst bidders. More particularly, in the case of WINDOW, the advisor commented that all went according to plan, that the most likely buyer knew that there were other interested parties, and that when it was mentioned that the other parties offered attractive earn-out schemes, they were willing to top their offer with earn-outs as well. The seller mentioned that he perceived the process to be fast and that, according to him, this was also because some potential buyers had already known the company.

It was reported that the seller was satisfied with the advisor's work and the divestment process Advisor5 had conducted was precisely designed to maximize price, and minimize time to closing and risks to the transaction. The seller reported that he was aware of the advisor's experience and commented that he appreciated the fact that he had known the company since before, and actually liked it. He commented that WINDOW could have conducted the divestment process without the help of an advisor, but that he considered it favourable to have someone with the contacts and experience to support the company and lead the negotiations with the bidders.

The seller also clarified that it was very important that the buyer understands the target company's business. In his opinion, this was a condition in order to make a competitive bid and then actually be successful after the acquisition.

5.8 Data analysis overview

All presented conclusions are based on a full data analysis consisting of a within case and a cross case analysis, as detailed in appendix 4. In the within case analysis, the key success factors and outcome of the divestment process were analysed, considering the statements labelled as fact and

opinion, as well as information from deal documentation and additional documents mentioned in the case description. In the cross case analysis, the same elements were analysed by the researcher, considering the results from the five within case analyses and the results of the survey. The similarities and differences of the individual cases have been analysed for every key success factor. Based on the results of the multiple cases studies, a good practice approach was developed, also considering the trade-off between the optimization of one key success factor at the expense of another, as discussed under the conclusion from multiple case studies. The conclusions presented in the five case analyses are the results of this full analysis. In order to simplify comparison of these conclusions, a numeric code has been assigned to the conclusions as per the table below. It has to be noted that the numerically coded rating of the intention and implementation, with regard to the key success factors, is not to be understood as a rating of the work of the advisor. It could be observed in the multiple cases studies that the optimization of the previously defined key success factors depends on the particular circumstances of a divestment process and on the characteristics of the target company. Further, it is important to highlight the subjectivity of the ratings and its qualitative nature. Even if a numeric code is used to facilitate the analysis, there is no clear measure of distances in the scale. For better illustration (un-weighted) averages of the codes used for the qualitative conclusions are presented, without claiming that such indication can be considered a quantitative measure.

With regard to deferred or conditional payments, it has to be noted that the key success factor 9, previously defined as overcoming price differences using earn-outs, has been replaced during the analysis of the data collected from the five cases by overcoming price differences using deferred or conditional payments. Although the questions asked in the interviews and questionnaires were based on the initial definition, answers, and interpretation, they used a broader concept applied in an equivalent manner. As earn-out payments are deferred and conditional, they have still been included in every aspect of the analysis. The table below summarizes the conclusions made in the five cases, about the key success factors and the measurement of success.

Table 15 Overview of the full data analysis

<i>Elements to be studied</i>	<i>Case VIEW</i>	<i>Case ENFANTS</i>	<i>Case AUTOBAHN</i>	<i>Case PACKAGE</i>	<i>Case WINDOW</i>	<i>Comments</i>
	Key success factors					
Increasing negotiation power by creating competition	Intention (3) and implementation (3)	Intention (3) and implementation (3)	Strong intention (4) and strong implementation (4)	Intention (3) and implementation (3)	Strong intention (4) and strong implementation (4)	Competitive process from contacting to closing
Initiating the sales process under favourable market conditions	Intention (3) and implementation (3)	Limited intention (2) and implementation (3)	Strong intention (4) and strong implementation (4)	Strong intention (4) and implementation (3)	Intention (3) and implementation (3)	Analyse market and time divestment process accordingly
Selecting a group of bidders with the highest potential synergies	Limited intention (2) and limited implementation (2)	Strong intention (4) and strong implementation (4)	Very strong intention (5) and strong implementation (4)	Intention (3) and implementation (3)	Strong intention (4) and strong implementation (4)	Identify and contact strategic buyers that can make highest bid
Inviting financial investors to the bidding process	Intention (3) and implementation (3)	Intention (3) and implementation (3)	Very strong intention (5) and very strong implementation (5)	Limited intention (2) and limited implementation (2)	Strong intention (4) and strong implementation (4)	Select adequate financial investors to increase buyer universe
Increasing transparency of target company information	Strong intention (4) and strong implementation (4)	Very strong intention (5) and very strong implementation (5)	Very strong intention (5) and strong implementation (4)	Intention (3) and limited implementation (2)	Very strong intention (5) and very strong implementation (5)	Be most transparent possible to avoid losing time and trust
Controlling information dissemination to potential bidders	Strong intention (4) and implementation (3)	Strong intention (4) and strong implementation (4)	Very strong intention (5) and strong implementation (4)	Very strong intention (5) and strong implementation (4)	Strong intention (4) and implementation (3)	Adequately manage the flow of confidential information
Articulating a compelling value and growth story for each buyer	Limited intention (2) and limited implementation (2)	Intention (3) and implementation (3)	Very strong intention (5) and strong implementation (4)	Intention (3) and implementation (3)	Intention (3) and implementation (3)	Actively highlight to each bidders how the acquisition creates value
Optimizing the auction process used in the divestment	Intention (3) and implementation (3)	Intention (3) and limited implementation (2)	Very strong intention (5) and strong implementation (4)	Intention (3) and implementation (3)	Very strong intention (5) and strong implementation (4)	Adjusting the process to the situation, pressure bidders to make highest possible bid
Overcoming price differences using deferred or conditional payments	Intention (3) and strong implementation (4)	Limited intention (2) and implementation (3)	Limited intention (2) and limited implementation (2)	Limited intention (2) and limited implementation (2)	Strong intention (4) and strong implementation (4)	Consider adequate mechanism at its present value
Identifying and mitigating potential deal breakers	Intention (3) and limited implementation (2)	Intention (3) and strong implementation (4)	Very strong intention (5) and strong implementation (4)	Intention (3) and limited implementation (2)	Intention (3) and implementation (3)	Avoid, anticipate or identify and any unnecessary risks to transaction

	<i>Measurement of success</i>						
Price optimization		Optimization of valuation and proceeds (3)	Optimization of valuation and proceeds (3)	Strong optimization of valuation and proceeds (5)	Limited optimization of valuation and proceeds (2)	Strong optimization of valuation and proceeds (4)	Present value of full consideration received has to be superior to stand-alone value of target and closest possible to its post-acquisition value
Closing		Limited optimization of timing and risk (2)	Strong optimization of timing and risk (4)	Strong optimization of timing and risk (5)	Limited optimization of timing and risk (2)	Strong optimization of timing and risk (4)	Process is optimized if transaction is consumed without unnecessary delay and there is no abort for the wrong reasons

The content analysis of the interview transcripts has been performed for each case and adds to the analysis of the advisors' intention to optimize each key success factor. A potential source of bias is the translation of the transcripts by the researcher, even if they were validated by the participants. The table below includes a comparison of how many times a statement regarding an element to be studied was made, versus how many times participants were asked to make a statement about it.

Table 16 Overview content analysis

Elements to be study	Addressed by interviewer	Statements in VIEW	Statements in ENFANTS	Statements in AUTOBAHN	Statements in PACKAGE	Statements in WINDOW
<i>Key success factors</i>						
Increasing negotiation power by creating competition	3	4	4	5	3	4
Initiating the sales process under favourable market conditions	3	3	4	3	3	5
Selecting a group of bidders with the highest potential synergies	2	2	4	3	1	4
Inviting financial investors to the bidding process	2	2	2	4	2	0
Increasing transparency of target company information	3	2	2	3	16	4
Controlling information dissemination to potential bidders	2	5	4	5	6	3
Articulating a compelling value and growth story for each buyer	1	0	1	3	0	1
Optimizing the auction process used in the divestment	2	1	0	2	1	3
Overcoming price differences using deferred or conditional payments	3	3	0	1	1	6
Identifying and mitigating potential deal breakers	2	5	2	3	2	6
<i>Measurement of success</i>						
Optimization of valuation and proceeds	4	3	7	13	15	15
Optimization of timing and risk	0	6	5	2	2	1
<i>Others</i>						
Other key success factors	0	0	0	1	0	0
General statements about process*	2	10	4	10	10	10

The priority of this content analysis for triangulation purpose has been to remain as objective as possible. Therefore, the description of the content being analysed is not as rich as the more comprehensive discussion of each key success factor. As shown in the table below it has been distinguished between statements that were made directly answering a question related to a key success factor and additional statement from the same category.

Table 17 Percentage of direct answer

Elements to be study	Direct answers VIEW	Direct answers ENFANTS	Direct answers AUTOBAHN	Direct answers PACKAGE	Direct answers WINDOW
Increasing negotiation power by creating competition	25.0%	75.0%	60.0%	66.7%	100.0%
Initiating the sales process under favourable market conditions	100.0%	100.0%	100.0%	100.0%	100.0%
Selecting a group of bidders with the highest potential synergies	50.0%	50.0%	66.7%	100.0%	100.0%
Inviting financial investors to the bidding process	100.0%	100.0%	50.0%	100.0%	N/A
Increasing transparency of target company information	100.0%	100.0%	66.7%	25.0%	75.0%
Controlling information dissemination to potential bidders	100.0%	50.0%	80.0%	66.7%	66.7%
Articulating a compelling value and growth story for each buyer	N/A	100.0%	0.0%	N/A	100.0%
Optimizing the auction process used in the divestment	0.0%	N/A	100.0%	100.0%	100.0%
Overcoming price differences using deferred or conditional payments	33.3%	N/A	100.0%	100.0%	100.0%
Identifying and mitigating potential deal breakers	60.0%	100.0%	66.7%	100.0%	33.3%
Optimization of valuation and proceeds	100.0%	71.4%	69.2%	66.7%	66.7%
Optimization of timing and risk	0.0%	0.0%	0.0%	0.0%	0.0%
Other key success factors	N/A	N/A	0.0%	N/A	N/A

The results presented above are discussed in more detail at the end of each case analysis, including additional differentiation. With regards to the statements about optimization of valuation and proceeds, it can be observed that many more statements related to this element studied were made than questions asked. However, the percentage of direct answers in this category remains above 66% in all cases. It has been observed that this was mainly due to the need to make several separate statements in response to the same question, for explanatory purposes. More interestingly, the advisors working for FirmA made more statements about timing and risk than the other advisors that comment more extensively on optimization of valuation and proceeds. This difference is discussed in the conclusions from the multiple case studies.

The presentation of the results of the full data analysis is organised by the elements that have been studied. First, the relative conclusions made for each of the five cases are presented. Second, in the comparative analysis chapter, optimization of the key success factors and success are compared across the cases. Trade-offs between the key success factors have been presented in the conclusion of the case study, after having presented the proposed good practice implementation. It is important to remember that the order applied to the presentation of results is not related to the data analysis process as described in appendix 4.

5.9 Case analysis VIEW

5.9.1 Key success factors

Based on the information obtained, a simple analysis of the main elements of the divestment process can be conducted. In the conclusion of the within case and cross case analysis, the intention to optimize a key success factor and its implementation has been commented upon.

- 1) The benefit of increased negotiation power through competition in the process of divesting a privately held target

During the contacting phase, the advisor described the divestment process as competitive, in the sense that more than 7,000 potential buyers would learn about the investment opportunity and only bidders making an acceptable indicative offer would be invited to the due diligence process. The seller stated that the divestment process was set up and conducted by FirmA, which was the sole advisor involved and in charge of the process and all related negotiations. The seller was aware of the fact that, after the identification of a potential buyer, price negotiations would be necessary even if a valuation of VIEW had been indicated to interested parties. It was the intention of the sell-side to invite the bidder to a full due diligence if an agreement on the price and payment terms of a potential transaction could be found.

Based on the above information, it can be reported that the divestment process of VIEW was set up to be competitive. As the divestment process was significantly delayed and only one formal indicative offer had been received, a more detailed analysis is not possible. After the comparative analysis, it has been concluded that, in the case of VIEW, there was an intention (3) to increase negotiation power by creating competition and implementation (3).

2) The benefit of the initiation of the sales process under favourable market conditions when divesting a privately held target

The market conditions were considered to be favourable from the moment the divestment process was initiated. The advisors reported that acquisition targets in COUNTRY were attractive due to a complicated market environment in other European countries. However, they also reported that it was a bigger challenge than in earlier years to obtain acquisition financing. In the particular case of VIEW, the operational transition from the seller being the sole shareholder and manager was an additional challenge, which was considered for the timing of the divestment process. The seller commented that it was a good moment to sell as the company reached a more mature market. According to Mergermarket (2013), the mid-market M&A deal volume in Europe was relatively moderate in 2012 and 2013. However, the study also recognizes that there are different tendencies in each sector that could not be addressed to the level of the niche sectors that VIEW is active in. There was no indication that the seller and his advisor waited to initiate, or interrupted the divestment process in order to wait for a particular market environment. This is most likely due to the fact that it was not necessary.

Based on the above information, it can be reported that market conditions were considered by the seller and the advisor, but no particular analysis was conducted. However, the particularities of the company and its market were considered before deciding that it was a good moment to sell. After the comparative analysis, it has been concluded that in the case of VIEW, there was an intention (3) to initiate the sales process under favourable market conditions and implementation (3).

3) The benefit of contacting a well-selected group of bidders with the highest potential synergies in the process of divesting a privately held target

The target company's blind profile was distributed through FirmA's investor database according to the advisor, consisting of 5,000 financial investors and 2,000 strategic buyers. According to FirmA, most financial investors in the database are private investors looking for MBI opportunities. It has to be noted that no strategic buyers were selected based on potential synergies, as the advisor considered it more efficient to only contact potential buyers that had

expressed their interest to make an acquisition to FirmA. He commented that, in the early contact phase, at least one IT group that could be considered a strategic buyer, with potential synergies, expressed its interest in VIEW.

Based on the above information, it can be reported that no bidders with potential synergies were actively selected and contacted in the divestment process. After the comparative analysis, it has been concluded that, in the case of VIEW, there was a limited intention (2) to select a group of bidders with the highest potential synergies and limited implementation (2).

- 4) The benefit of inviting financial investors with access to low cost leverage to the bidding process when divesting a privately held target

The advisor reported that through FirmA's database, many financial investors were contacted, most of them being private investors that could see VIEW as an MBI opportunity. Given the fact that according to information provided by FirmA, they also assist investors in obtaining appropriate acquisition financing, private investors could also potentially be able to compete in the bidding process. The only formal indicative offer was submitted by a financial investor described as a family office of the owners of a larger company with activities in an unrelated sector. It has to be noted that even for this type of potential buyer, acquisition financing was a major issue. The seller commented that investors from his network and contacts of the advisors should be included in the divestment process.

Based on the above information, it can be reported that an alternative group of potential buyers was informed about the acquisition opportunity presented to the bidders with potential synergies. However, this was exclusively done by means of a newsletter to a wide range of investors, mainly private individuals, without an analysis of their financial resources and management capacities. After the comparative analysis, it has been concluded that, in the case of VIEW, there was an intention (3) to invite financial investors to the bidding process and implementation (3).

- 5) The benefit of increased transparency of company information in the process of divesting a privately held target

VIEW being a privately held company, potential buyers did not have any information on the company's activities or its shareholders' strategic intentions before the initiation of the divestment process. The expected transaction value and the main characteristics of the company were indicated in the blind profile distributed to all potential buyers including the 7,000 investors subscribing to FirmA's database. Upon signing a confidentiality agreement, the

interested parties received a memorandum including all information necessary to make an indicative offer for VIEW. At this stage, they were aware of the company's and its owners' identity, as well as their preferred transaction structure. As a major tax issue was only identified during the contacting phase of the divestment process, there was a delay of almost one year. Before indicative offers were submitted, potential buyers had the opportunity to meet the seller and only little sensitive information was going to be held back until the formal due diligence was started.

Based on the above information, it can be reported that the seller and his advisor had the best intention to manage the divestment process transparently and provide potential buyers with all the information they needed for their analysis of the investment opportunity. A major issue was identified only after having started disseminating the target company information. After the comparative analysis, it has been concluded that, in the case of VIEW, there was a strong intention (4) to increase the transparency of the target company information and strong implementation (4).

- 6) The effect of well controlled information dissemination to potential bidders in the process of divesting a privately held target

VIEW being a privately held company, potential buyers did not have any confidential information on the company or its shareholders before the initiation of the divestment process. Before the potential buyers received the memorandum, they had to sign a confidentiality agreement. In the blind profile provided beforehand, neither the company name nor any information that could reveal its identity was provided. However, the expected transaction value was indicated in this blind profile which was distributed to all potential buyers. This distribution list included 7,000 investors who subscribed to FirmA's database, where no particular analysis is previously done in order to assess the benefit these investors could obtain from confidential information provided. However, according to FirmA, most of these investors are private individuals without an operational company. Upon signing a confidentiality agreement, the interested parties received a memorandum revealing the company's and its owners' identity, as well as their preferred transaction structure. Selected interested parties were invited to meet the seller and it has to be assumed that even a larger number of well identified potential buyers received the memorandum. The most sensitive information was held back until formal due diligence, which is only to be started once there is agreement on the price and payment structure of a potential transaction.

Based on the above information, it can be reported that the seller and his advisor considered the need to protect confidential information but came to the conclusion that the risk was marginal. However, they implemented several measures in order to mitigate any risk of the uncontrolled dissemination of confidential information. It has to be noted that due to the delay in the divestment process, the contacting phase was spread over a period of 18 months, which potentially increased the risk. After the comparative analysis, it has been concluded that in the case of VIEW there was a strong intention (4) to control information dissemination to potential bidders and implementation (3).

- 7) The benefit of articulating a compelling value and growth story for each buyer in the process of divesting a privately held target

Interested parties were provided with a memorandum presenting the growth potential and all characteristics of the target company that could be relevant to create synergies. Further, potential buyers were received in a first meeting before they had to submit an indicative offer. However, the sell-side was not actively looking for buyers with synergies and did not have the expectation to receive bids above the stand-alone value of the company. The advisor commented that he expected the indicative offers to be in line with the valuation indicated to potential buyers, whereas the seller commented that he expected the highest offers to be below the USD 20 million he expected. It is important to note that interested parties were received in a first meeting before they had to submit an indicative offer. It can be assumed that the growth potential and synergies were addressed in such meetings.

Based on the above information, it can be reported that the seller and his advisor highlighted the growth potential of the target company. However, no analysis or tailor-made presentations, with regard to synergies for growth with a particular potential buyer, were made, and the sell-side did not explicitly contact buyers with synergies. After the comparative analysis, it has been concluded that, in the case of VIEW, there was limited intention (2) to articulate a compelling value and growth story for each buyer, and limited implementation (2).

- 8) The benefit of an optimized auction process used when divesting a privately held target

A competitive divestment process was initiated, contacting more than 7000 potential buyers. As it seems to be common practice at FirmA, a price indication, based on a full diagnostics of VIEW, was communicated to potential buyers from the beginning. This can be concluded, as part of the deal documentation was FirmA's newsletter with a selection of their current divestment projects, all with a price indication. The seller stated that the divestment process was set up and conducted by FirmA, whose work he appreciated. Advisor6 commented that

even if the divestment process was slow and had to be interrupted, the planned structure was respected. It has to be assumed that the sell-side failed to obtain multiple bids at the same time because of a lack of interest from potential bidders. However, it has to be noted that more parties were interested in VIEW, and that a bidder who does not share the indicated view on valuations could prefer to abstain from submitting a bid rather than making a lower but formal indicative offer.

Based on the above information, it can be reported that there was a competitive environment created, which was used to force bidders to make the highest possible offer from the beginning itself. As the divestment process was significantly delayed and only one formal indicative offer had been received, a more detailed analysis is not possible. After the comparative analysis, it has been concluded that in the case of VIEW, there was intention (3) to optimize the auction process, and implementation (3).

- 9) The benefit of deferred or conditional payments as part of the consideration when divesting a privately held target

The seller indicated that his price expectation was USD 20 million for 100% of the shares, which was significantly above the valuation of USD 14 million reported by his advisor. Before indicative offers were received, the deferred or conditional considerations were not mentioned by the sell-side. The only formal indicative offer submitted by a potential buyer suggested a valuation of USD 14.5 million, of which 70% was to be paid at closing, and 30% in an earn-out structure. According to the advisor, earn-out payments were the only possible solution to overcome the difference in perception of valuation and were necessary because it was difficult to obtain acquisition financing from a bank. He commented that the payment structure of the offer was attractive if no further guarantees are asked for the amount paid at closing. The sell-side was aware of the fact that, due to the high dependence of VIEW on its sole shareholder and manager, in a transition phase, the risk for the acquirer could be relatively important.

Based on the above information, it can be reported that the use of deferred or conditional payments was not commented before indicative offers were received. However, the earn-out structure suggested by the potential buyer was quickly adopted. After the comparative analysis, it has been concluded that in the case of VIEW, there was intention (3) to overcome price differences using deferred or conditional payments, and strong implementation (4).

- 10) The benefit of the identification and mitigation of potential deal breakers in the process of divesting a privately held target

The sell-side considered the risk of difference in the perception of valuation and the challenge of financing. It was reported that the high dependence of the target company on its sole shareholder and manager was the main reason for both potential deal breakers which could, therefore, not easily be mitigated. It has to be noted that no active selection of potential buyers with the management capacity necessary for a smooth transition was conducted. The particular tax issue was identified after the divestment process was initiated. Moreover, 18 months later, when a formal indicative offer had been received, a potential change in the tax system was considered a risk to the transaction. On the other hand, the fact that a price indication was communicated to potential buyers and the company information was transparently shared reduced the risk of any surprises in the final phase of the divestment process.

Based on the above information, it can be reported that the major potential deal breakers were identified but could not be fully mitigated. It has to be noted that the tax issue was only recognized after VIEW was presented to potential buyers as an investment opportunity, and it remains a risk to the transaction. At the reported stage of the transaction, a more detailed analysis is not possible. After the comparative analysis, it has been concluded that, in the case of VIEW, there was intention (3) to identify and mitigate potential deal breakers, and limited implementation (2).

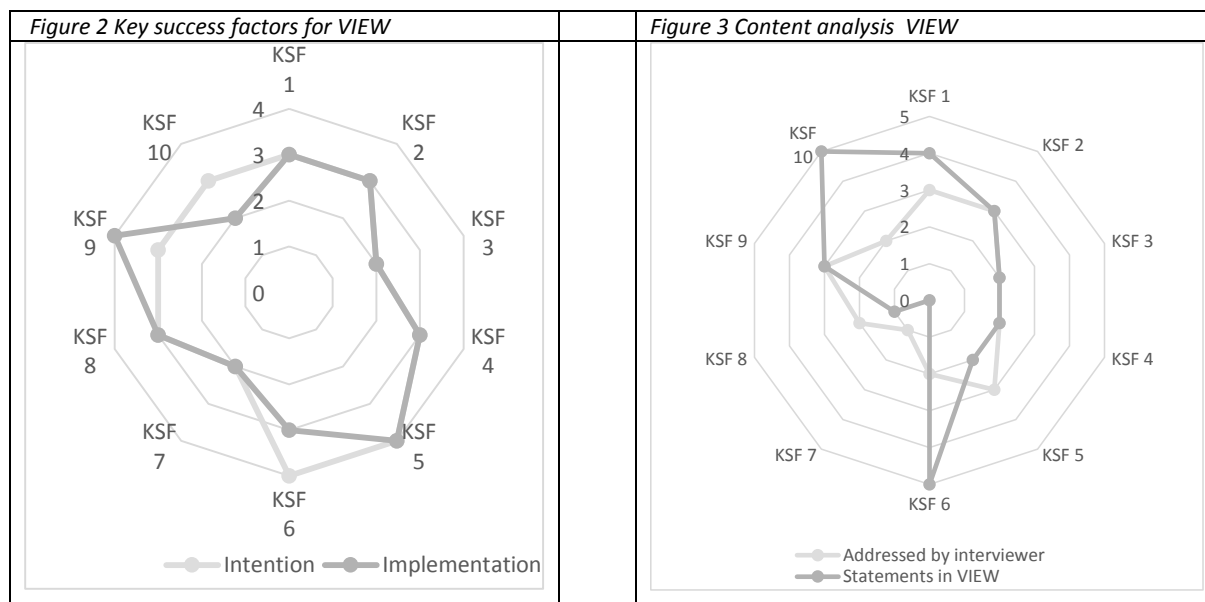
5.9.2 Outcome and conclusion

The outcome of the reported divestment process was the submission of a formal indicative offer by one potential buyer 18 months after the initiation of the divestment process. The acquisition price offered, of USD 14.5 million, was still subject to full due diligence and the payment was structured as 70% of proceeds at closing plus a 30% earn-out. This valuation, presented by the buy-side, was 18% below the seller's expectations and 4% above his advisor's initially valuation. In terms of multiples, the indicative offer was 5.5 times the target company's 2013 EBIT. Advisor⁶ commented that he considered the divestment process to be correctly set up, and highlighted that the stages of the process were conducted as planned. In his opinion, the reason why the closing of a transaction had not been possible in a shorter period of time was the tax issue. A further challenge was the high dependence of the target company on its sole shareholder and manager. It has to be noted that the divestment process had not been abandoned and that a successful divestment seemed possible within the next months. However, it had already been more than 18 months since the divestment process was initiated and more than 6 months since the contacting phase was reinitiated.

Based on the above information, it can be reported that, after a period of 18 months from the beginning of the divestment process, there was still no final agreement on a transaction.

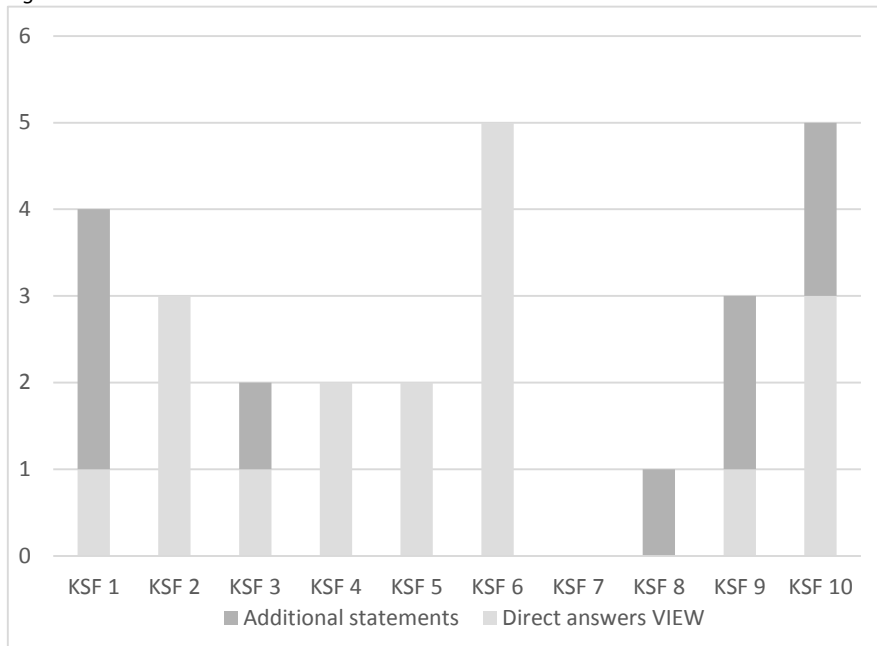
However, the formal indicative offer which was then under negotiation was, at least in terms of valuation, acceptable to the sell-side. After the comparative analysis, it has been concluded that, in the case of VIEW, there was optimization of valuation and proceeds (3), and limited optimization of timing and risk (2).

The radar charts below compares the intention to optimize the 10 key success factors with the implementation and illustrate the results of the content analysis.



It can be concluded that there was reported intention (3.0, average of codes used for qualitative conclusions) and partially observable implementation (2.9) with respect to the key success factor of the divestment process which led to limited optimization of the deal outcome (2.5) from a seller's perspective. The analysis of the data collected in this case has been conducted in comparison with the full sample. With respect to the mandate of FirmA's advisors, the seller reported that he was satisfied with their work up to the final reported stage of the process. However, the terms of their collaboration have not been addressed in this study. The radar chart on key success factors illustrate that the intention to optimize each key success factor was very comparable to the observable implementation, while the radar chart based on the content analysis shows that the advisor mentioned clearly more often the need for confidentiality than the interviewer addressed this key success factor. This is in line with the intention (5) and the implementation (4) to optimize this key success factor. In addition, the need for mitigation of potential deal breakers was mentioned more often as the advisor was explaining the situation of this divestment process that had to be put on hold.

Figure 4 Direct answers and additional statements VIEW



No statement about articulating a compelling value and growth story for each buyer was made by the advisors that contacted potential buyers exclusively through FirmA's database of investors. Most statements with regards to the key success factors 1 (increasing negotiation power by creating competition), 8 (optimizing the auction process used in the divestment) and 9 (overcoming price differences using deferred or conditional payments) were made without being asked for. This can be explained by the circumstance that the deal was not closed because the earn-out offered was too big and just one potential buyer submitted an indicative offer. The advisor commented in this context on the advantage of increased competition and a potentially resulting auction process.

5.10 Case analysis ENFANTS

5.10.1 Key success factors

Based on the information obtained, a simple analysis of the main elements of the divestment process can be conducted. In the conclusion for the within case and cross case analyses, the intention to optimize a key success factor and its implementation have been commented upon.

- 1) *The benefit of increased negotiation power through competition in the process of divesting a privately held target*

During the contacting phase the advisor described the divestment process as competitive, in the sense that more than 7,000 potential buyers could learn about the investment opportunity and bidders making an acceptable indicative offer would be invited to the due diligence process. The seller stated that the divestment process was set up and conducted by Advisor2 and that, besides FirmA and ENFANTS shareholders, only a tax advisors and a lawyer were involved in

the transaction. However, the M&A advisor was clearly in charge of the divestment process and all related negotiations. The four bidders making an indicative offer all had meetings with the fiduciary accountant to go through the numbers in detail, but only the most likely buyer was then invited to a full due diligence. The selection criteria were the best offer and the fact that this bidder was able to pay the full price in cash, whereas the other bidders still needed bank financing. There was no price adjustment from the indicative offer to closing, a period that took little more than two months.

Based on the above information, it can be reported that the divestment process of ENFANTS was competitive to a certain extent. A large number of potential buyers was contacted through FirmA's database. Out of 20 potential buyers that were initially met, four made a formal indicative offer and one potential bidder was invited by the seller to conduct a full due diligence. Therefore, the competition was reduced before a binding offer had been submitted. After the comparative analysis, it has been concluded that, in the case of ENFANTS, there was intention (3) to increase negotiation power by creating competition, and implementation (3).

- 2) The benefit of initiation of the sales process under favourable market conditions when divesting a privately held target

The market conditions were considered to be favourable from the moment the divestment process was initiated, until its closing. The advisor reported that the market conditions for acquisitions were extraordinarily complicated in the countries of some potential buyers and, therefore, an asset like ENFANTS became even more attractive. The seller focused on the fact that the childcare sector had a good market momentum in COUNTRY and that ENFANTS could be considered an avenue to enter the market. According to Mergermarket (2013), the mid-market M&A deal volume in Europe was relatively moderate in 2012 and 2013. However, the study also recognizes that there are different tendencies in each sector that could not be addressed to the level of niche sectors that ENFANTS is active in. There was no indication that the seller and his advisor waited to initiate or interrupted the divestment process, in order to wait for a particular market environment. This is most likely due to the fact that it was not necessary.

Based on the above information, it can be reported that market conditions were considered by the seller and the advisor, but no particular analysis was conducted. After the comparative analysis, it has been concluded that, in the case of ENFANTS, there was limited intention (2) to initiate the sales process under favourable market conditions, and implementation (3).

- 3) The benefit of contacting a well-selected group of bidders with the highest potential synergies in the process of divesting a privately held target

The target company's blind profile was distributed through FirmA's investor database to contact a large sample of investors, mainly private investors who considered ENFANTS as an MBI opportunity. As these investors did not necessarily have any synergies with the target, the advisor also selected well targeted companies which had a strategic fit and substantial potential synergies with ENFANTS. However, no competitors were contacted. There were 15 interested parties, of which 13 were strategic buyers who were received in a first meeting, before four of these strategic buyers submitted an indicative offer. After the reception of indicative offers, no additional potential buyers were contacted.

Based on the above information, it can be reported that selected bidders with potential synergies were contacted in the divestment process and, at the end of the contacting phase, only bidders with potential synergies made an indicative offer. After the comparative analysis, it has been concluded that in the case of ENFANTS, there was strong intention (4) to select a group of bidders with the highest potential synergies, and strong implementation (4).

- 4) The benefit of inviting financial investors with access to low cost leverage to the bidding process when divesting a privately held target

The advisor reported that no actual financial investors such as private equity firms were contacted, but through FirmA's database, many private investors who could see ENFANTS as an MBI opportunity were approached. However, given the fact that according to information provided by FirmA, they assist investors in obtaining appropriate acquisition financing, private investors could also potentially be able to compete in the bidding process. Considering the limited size of ENFANTS and its strong dependence on the shareholders managing the group, the question would have to be addressed as to whether the private equity fund could have had an interest in the target company or if private individuals with the necessary management capacity were the more appropriate group of potential buyers to be contacted. According to Bain & Company's study on global private equity activities in 2013, the average investment size that year was USD 267 million.

Based on the above information, it can be reported that an alternative group of potential buyers was informed about the acquisition opportunity presented to the bidders with potential synergies. However, this was exclusively done by the means of a newsletter to a wide range of investors, mainly private individuals, without an analysis of their financial resources and management capacities. After the comparative analysis, it has been concluded that in the case

of ENFANTS, there was intention (3) to invite financial investors to the bidding, and implementation (3).

- 5) The benefit of increased transparency of company information in the process of divesting a privately held target

ENFANTS being a privately held company, potential buyers did not have any information on the company's activities or its shareholders' strategic intentions before the initiation of the divestment process. The expected transaction value and the main characteristics of the company were indicated in the blind profile distributed to all potential buyers, including the 7,000 investors subscribing to FirmA's database. Upon signing a confidentiality agreement, the interested parties received a memorandum including all the information necessary to make an indicative offer for ENFANTS. At this stage, they were aware of the identities of the company and its owners, as well as their preferred transaction structure. Before indicative offers were submitted, potential buyers had the possibility to meet the sellers, and only a little sensitive information was held back until the formal due diligence was started. Due diligence being the advisor's responsibility, the four parties that made an indicative offer all had a meeting with ENFANTS's fiduciary accountant. This was to consider the differences in COUNTRY's tax system as compared to the tax system which the potential buyers were familiar with. Further, in the full due diligence, where only the one buyer had access to all information necessary to verify the information provided in the memorandum, tax deductions remained the only minor issue. The seller, however, commented that the buyer already had an advanced understanding of the differences in fiduciary accounting and taxes. It has to be noted that, before and after the due diligence, it was reported that no potential deal breakers could be identified and no particular risks to closing were expected. Moreover, the entire period from reception of the indicative offer to closing, including all parts of the due diligence, took little more than two months.

Based on the above information, it can be reported that the seller and his advisor had the best intention to manage the divestment process transparently and provide potential buyers with all the information they needed for their analysis of the investment opportunity. Further, there did not seem to be any major risk to the transaction or downward price adjustments from the buy-side along the process. After the comparative analysis, it has been concluded that in the case of ENFANTS, there was very strong intention (5) to increase transparency of target company information, and very strong implementation (5).

- 6) The effect of well controlled information dissemination to potential bidders in the process of divesting a privately held target

ENFANTS being a privately held company, potential buyers did not have any confidential information on the company or its shareholders before the initiation of the divestment process. Before the potential buyers received the memorandum, they had to sign a confidentiality agreement. In the blind profile provided beforehand, neither the company name nor any information that could reveal its identity was provided. However, the expected transaction value was indicated in this blind profile which was distributed to all potential buyers. This distribution list included 7,000 investors who subscribed to FirmA's database, where no particular analysis was previously done, to assess the benefit which these investors could obtain from the confidential information provided. However, according to FirmA, most of these investors are private individuals without an operational company. Further, within the selection of potential buyers with a strategic fit, no direct competitors were included. Upon signing a confidentiality agreement, the interested parties received a memorandum revealing the identities of the company and its owners, as well as their preferred transaction structure. Fifteen parties were invited to meet the seller, and it has to be assumed that even a larger number of potential buyers received the memorandum. However, it has been reported that the advisor preselected the best potential buyers for the meetings and had control over the sending of memorandums. Most importantly, little sensitive information was held back until the formal due diligence was started. Due diligence being the advisor's responsibility, the four parties that made an indicative offer had a meeting with ENFANTS's fiduciary accountant. Only one buyer was invited to the full due diligence, where all sensitive information was provided. Before selecting the final buyer, the sell-side assessed the risk to closing they would have had with each party, particularly their capacity to pay the acquisition price. It has to be noted that the seller and his advisor considered that there was no risk at all that information revealed in the divestment process could significantly damage ENFANTS' business activities. Further, the whole period from the reception of the indicative offer to closing, where potentially sensitive information was revealed, took little more than two months.

Based on the above information, it can be reported that the seller and his advisor considered the need to protect confidential information, but concluded that the risk was marginal. However, they implemented several measures in order to mitigate any risk of uncontrolled dissemination of confidential information. After the comparative analysis, it has been concluded that, in the case of ENFANTS, there was strong intention (4) to control information dissemination to potential bidders, and strong implementation (4).

- 7) The benefit of articulating a compelling value and growth story for each buyer in the process of divesting a privately held target

The advisor commented that he expected the indicative offers to be approximately 10% below the valuation indicated to potential buyers, whereas the seller commented that he expected the highest offers to be approximately equal to the valuation. It is important to note that the advisor sent the blind profile to a well-targeted selection of potential buyers with a strategic fit and that interested parties were provided with a memorandum presenting the growth potential and all the characteristics of the target company that could be relevant to create synergies. Further, potential buyers were received in a first meeting before they had to submit an indicative offer. It can be assumed that the growth potential and synergies were addressed in such meetings. After the transaction, they both agreed that the acquisition was an attractive deal for both counterparts. Advisor2 focused on the fact that the buyer had purchased expertise in childcare and would be able to leverage this expertise to create value. Since the transaction value did not include any potential synergies, the potential value created would be to the benefit of the acquirer. The seller highlighted the value of the access to ENFANTS' market, but considered it difficult to express the value created as an amount. In the memorandum, the company's growth potential and profitability were described, and according to the advisor, he highlighted ENFANTS potential and any synergies to interest parties throughout the process.

Based on the above information, it can be reported that the seller and his advisor highlighted the growth potential of the target company and, particularly, contacted potential buyers with synergies. However, no analysis or tailor made presentations, with respect to synergies for growth with a particular potential buyer, were made. After the comparative analysis, it has been concluded that, in the case of ENFANTS, there was intention (3) to articulate a compelling value and growth story for each buyer, and implementation (3).

- 8) The benefit of an optimized auction process used when divesting a privately held target

A competitive divestment process was initiated, contacting more than 7,000 potential buyers. As it seems to be common practice at FirmA, a price indication based on a full diagnostics of ENFANTS was communicated to potential buyers from the beginning. This can be concluded, as part of the deal documentation was FirmA's newsletter with a selection of their current divestment projects, all with a price indication. The seller stated that the divestment process was set up and conducted by Advisor2, whose work he appreciated. Further, he commented that the positive market tendencies helped along with the fact that shareholders did not have any pressure to sell ENFANTS. The divestment process was conducted as planned and, because

many potential buyers were contacted, multiple indicative offers were received simultaneously. The four bidders making an indicative offer all had meetings with the fiduciary accountant to go through the numbers in detail, but only the most likely buyer was then invited to a full due diligence. The selection criterion was the best offer, in the sense that this bidder was able to pay the full price in cash, whereas the other bidders still needed bank financing. However, by the time the buyer made his binding offer, other potential buyers would not have been in a position to compete in a bidding process, as they were not invited to the full due diligence process.

Based on the above information, it can be reported that there was a competitive environment created, which was used to force bidders to make the highest possible offer from the beginning itself. After due diligence, however, no auction-like process, calling for multiple binding offers, was conducted. It also has to be highlighted again that the potential buyers were informed about the price the seller was expected to obtain for ENFANTS, before they gave a first price indication. After the comparative analysis, it has been concluded that in the case of ENFANTS there was intention (3) to optimize the auction process, and limited implementation (2).

- 9) The benefit of deferred or conditional payments as part of the consideration when divesting a privately held target

Even if the price paid, being the same amount as indicated before the due diligence, was approximately 7% below the valuation indicated by the sell-side, both the seller and the advisor did not consider the offer to be below the price that they asked for. The seller commented that EUR 100,000 was not going to make a difference to them, and that after 20 years building up this company, other factors mattered to them as well. However, the deal documentation indicates that earn-out payments amounting to 10% of the acquisition price were agreed upon. It has to be noted that neither the seller nor his advisor reported the intuition to use deferred or conditional payments at any stage of the divestment process. Only the possible adjustment of the earn-out payments due to deferred tax liabilities was commented.

Based on the above information, it can be reported that there was no intention to use deferred or conditional payments as part of the consideration. However, earn-out payments were used for 10% of the total acquisition price in order to close the transaction with a 7% discount on the stand-alone valuation, instead of 17%. After the comparative analysis, it has been concluded that in the case of ENFANTS, there was limited intention (2) to overcome price differences using deferred and conditional consideration, and implementation (3).

- 10) The benefit of the identification and mitigation of potential deal breakers in the process of divesting a privately held target

The sell-side considered the risk of a deal breaker as almost non-existent throughout the process, because they were very transparent from the beginning. The seller commented that they were aware of the fact that there is always a risk to closing, but that they were not overly concerned. He commented that if the deal with this buyer encountered problems, they could also continue operating the company. The advisor reported that there were no potential deal breakers after the reception of the indicative offer because the sell-side selected the potential buyer that was able to finance the acquisition without resorting to any acquisition financing. However, it has to be understood that the sell-side invited the one bidder to due diligence that did not bear any deal breakers and thus mitigated the risk to closing with this choice. Further, the fact that a price indication was communicated to potential buyers and the company information was transparently shared reduced the risk of any surprises in the final phase of the divestment process.

Based on the above information, it can be reported that there was the intention to mitigate the risk of deal breakers but only the risk of acquisition financing was identified. The identified deal breaker was clearly mitigated by the choice of the buyer. Rather than identifying deal breakers, the focus was on not creating any potential deal breakers by a transparent communication with potential buyers throughout the divestment process. After the comparative analysis, it has been concluded that in the case of ENFANTS, there was intention (3) to identify and mitigate potential deal breakers, and strong implementation (4).

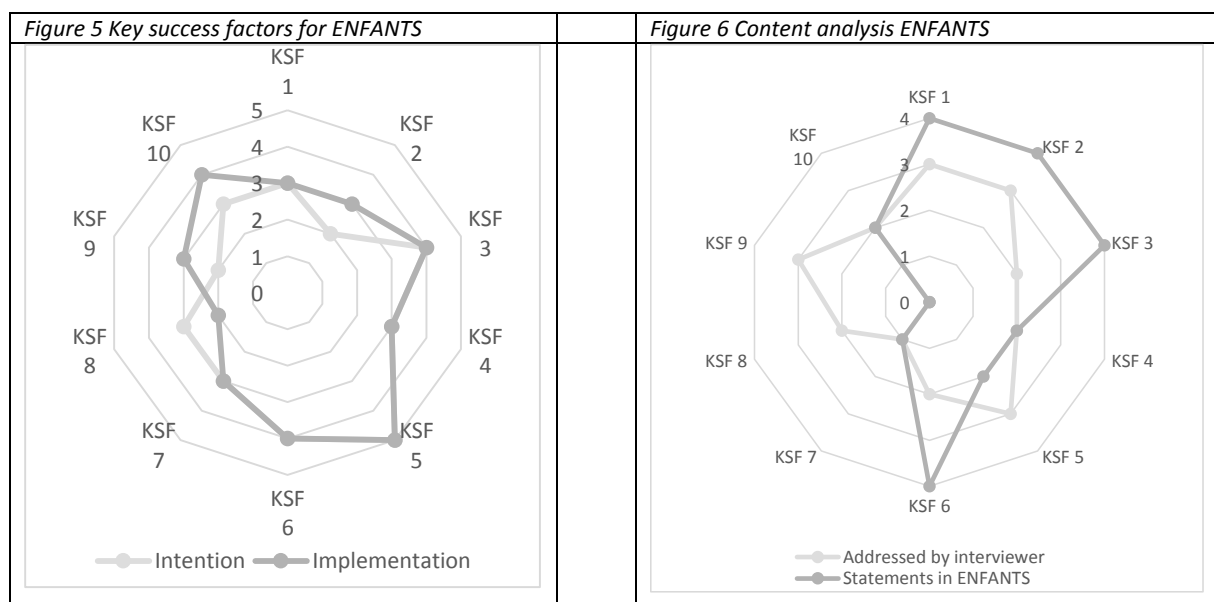
5.10.2 Outcome and conclusion

The outcome of the divestment process was the sale of 100% of ENFANTS' shares seven months after the initiation of the divestment process. With a sales price of EUR 6.4 million, the valuation paid in this transaction was 7% below the stand-alone value of the company. Ninety per cent of the consideration was paid in cash at closing and 10% was included in an earn-out scheme. The total consideration paid indicates a multiple of 10.5 on the target company's 2013 EBIT. The seller and his advisor both reported that they considered the price received to be fair value. However, they also agreed that the acquisition price paid allowed the buyer to benefit from economic value created in this transaction if synergies could be realized. The seller commented that the buy-side would have noticed if they had tried to ask for a price which included a substantial part of the value of potential synergies. Even if, according to the seller, they had already decided, four years ago, to sell the company, the divestment process was considered efficient by the sell-side. Particularly the two-month period, from the moment the indicative offers were received until the deal was closed, was considered very short and work-intensive. On the other hand, since the potential buyers were offered the possibility to meet

ENFANTS's shareholders before submitting an indicative offer, the contacting phase alone took almost six months in total. It has to be noted that at no moment of the transaction did a major risk to closing need to be overcome.

Based on the above information, it can be reported that the seller was fully satisfied with the outcome of the divestment process. However, the transaction value being 7% below the stand-alone value, it cannot be confirmed that the closed deal was the best possible option for the seller. No major delays or risks to the transactions could be observed. After the comparative analysis, it has been concluded that in the case of ENFANTS, there was optimization of valuation and proceeds (3), and strong optimization of timing and risk (4).

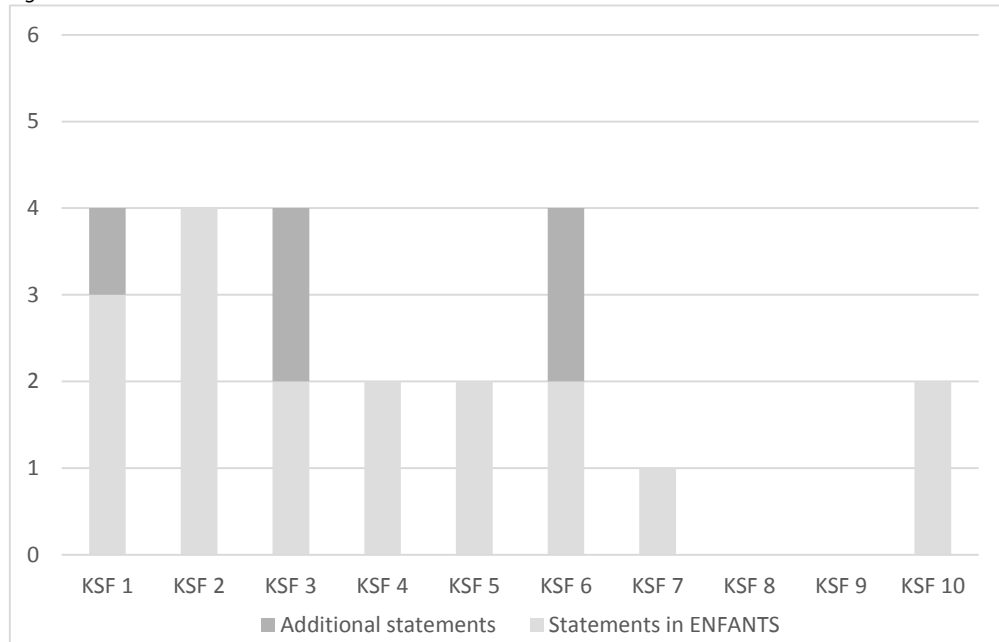
The radar charts below compares the intention to optimize the 10 key success factors with the implementation and illustrate the results of the content analysis.



It can be concluded that there was reported intention (3.2) and clearly observable implementation (3.4) with respect to the key success factor of the divestment process which led to relatively strong optimization of the deal outcome (3.5) from a seller's perspective. The analysis of the data collected in this case has been conducted in comparison with the full sample. With respect to the mandate of FirmA, the seller reported that he was satisfied with the work of Advisor2, but also that he wished the pricing of the mandate to have been clear from the beginning. The terms of their collaboration, however, have not been addressed in this study. The radar chart on key success factors illustrate that the intention to optimize each key success factor was very comparable to the observable implementation, while the radar chart based on the content analysis shows that the advisor mentioned clearly more often the need for

confidentiality than the interviewer addressed this key success factor. This is in line with the intention (4) and the implementation (4) to optimize this key success factor. Not addressing the use of earn-out payments in the interviews is in line with the limited intention to use them. It was however reported that the final transaction included deferred or conditional payments for up to 10% of the acquisition price.

Figure 7 Direct answers and additional statements ENFANTS



No statements with regards to the auction process and earn-out payments were made, which can be explained by the fact that in this divestment process only the acquirer was invited to conduct a full due diligence and the deferred and conditional payments were structured as a guarantee over an escrow account

5.11 Case analysis AUTOBAHN

5.11.1 Key success factors

Based on the information obtained, a simple analysis of the main elements of the divestment process can be conducted. In the conclusion for the within case and cross case analyses, the intention to optimize a key success factor and its implementation have been commented upon.

- 1) The benefit of increased negotiation power through competition in the process of divesting a privately held target

During the contacting phase, the advisor described the divestment process as highly competitive in the sense that a targeted group of 350 potential buyers was presented with the investment opportunity. Indicative offers were solicited from all potential buyers for the same date in order

to shortlist the sellers to be approached for a management presentation. Based on previous experience, FirmB recommended this approach as it was difficult to anticipate which potential buyer would be in a position to make the highest bid. The seller stated that the divestment process was set up and conducted by Advisor3, who was also in charge of the negotiations. After having received 48 indicative offers, management meetings were held with 15 bidders in order to identify the most likely buyers to be invited to the due diligence. Even if the seller had expected more interest from strategic buyers, no additional parties were contacted after the reception of the indicative offers. After having visited five bidders at their offices, the sellers selected two bidders for an in-depth due diligence, in order to limit the disclosure of sensitive information. According to the advisor, the selection was based on the valuation and criteria relevant for further collaboration between the buyer and the sellers that were willing to continue as the management team of AUTOBAHN. He reported that both bidders wanted to adjust the valuation after due diligence, as the half-year earnings were below budget. The issue was disclosed to interested parties in a timely manner, and all information requested by bidders was disclosed in the due diligence. According to the advisor, one bidder interpreted the issue as a systematic problem, while the buyer made a simple adjustment using the same EBITDA multiple, offering USD 50.5 instead of 55 million. He commented that this was due to the competitive environment created in the divestment process.

Based on the above information, it can be reported that the divestment process of AUTOBAHN was competitive. A large number of potential buyers were informed about the investment opportunity, and the involvement of multiple buyers in the full divestment process created a competitive environment. However, in an attempt to limit the disclosure of sensitive information at the due diligence stage, the number of bidders was reduced. After the comparative analysis, it has been concluded that in the case of AUTOBAHN, there was strong intention (4) to increase negotiation power by creating competition, and strong implementation (4).

- 2) The benefit of the initiation of the sales process under favourable market conditions when divesting a privately held target

The market conditions were considered to be very favourable from the moment the divestment process was initiated, until closing. The advisor highlighted the fact that market conditions were considered very good, as strategic buyers were holding a lot of cash and private equity funds were flushed with cash from the highly liquid financial markets. In the case of private equity funds, which are established to invest a specific amount of money over a limited period of time, the high number of offers submitted supports this analysis. According to Mergermarket (2013),

the mid-market M&A deal volume in North America was relatively moderate in 2012 and 2013. However, the study also recognizes that there are different tendencies in each sector, which could not be addressed to the level of the niche sectors in which AUTOBAHN is active. Further, there was no indication that the seller and his advisor waited to initiate, or interrupted, the divestment process in order to wait for a particular market environment. This is most likely because it was not necessary.

Based on the above information, it can be reported that market conditions were considered by the seller and the advisor, and available information on the industry was analysed. After the comparative analysis, it has been concluded that in the case of AUTOBAHN, there was strong intention (4) to initiate the sales process under favourable market conditions, and strong implementation (4).

- 3) The benefit of contacting a well-selected group of bidders with the highest potential synergies in the process of divesting a privately held target

Amongst a group of 350 well-selected potential buyers, 75 strategic buyers were confidentially contacted and a total of 48 indicative offers were received. However, no offers were presented by strategic buyers. The two possible reasons are either that AUTOBAHN was a more attractive investment opportunity to financial investors than strategic buyers, or, that the most suitable potential buyers were not included in the contacting phase of the divestment process. While this was not expected by the sell-side, no additional potential buyers were contacted after the reception of indicative offers.

Based on the above information, it can be reported that bidders with potential synergies were selected and contacted in the divestment process. Despite a clearly targeted contacting strategy, no strategic buyers made an indicative offer. After the comparative analysis, it has been concluded that in the case of AUTOBAHN, there was very strong intention (5) to select a group of bidders with the highest potential synergies, and strong implementation (4).

- 4) The benefit of inviting financial investors with access to low-cost leverage to the bidding process when divesting a privately held target

Amongst a group of 350 well-selected potential buyers, 275 financial investors such as private equity funds were confidentially contacted. All 48 indicative offers were submitted by financial investors and two of them were invited to conduct a full due diligence on AUTOBAHN. As the advisor highlighted, from the fact that private equity funds were flushed with cash from the highly liquid financial markets before indicative offers were received, it can be assumed that a

high level of interest from financial investors was anticipated. The seller, however, reported that there were more bids from financial investors than expected. The deal was closed as a majority acquisition, where the founders kept 20% of the company's equity, continuing to manage AUTOBAHN. It has to be assumed that the buyer preferred a transaction structure that assured continuity in management with aligned incentives. The sell-side reported that multiple meetings were held to assess the compatibility between the buyer's team and the sellers.

Based on the above information, it can be reported that a large group of financial investors was informed about the acquisition opportunity presented to the bidders with potential synergies. Only financial investors submitted formal indicative offers and the transaction was closed with one of them. After the comparative analysis, it has been concluded that in the case of AUTOBAHN, there was very strong intention (5) to invite financial investors to the bidding process, and very strong implementation (5).

- 5) The benefit of increased transparency of company information in the process of divesting a privately held target

AUTOBAHN being a privately held company, potential buyers did not have any information on the company's activities or its shareholders' strategic intentions before the initiation of the divestment process. A targeted group of 350 potential buyers was contacted with a blind profile not revealing the identity of the target company. However, the advisor commented that once interested parties signed a confidentiality agreement, full transparency was provided. Sufficient information with regard to the company and its activities, in order to make an indicative offer, was presented in a memorandum, including the name of the company and its shareholder. While 15 of the 48 bidders presenting an indicative offer were received for management meetings with the sellers, the most sensitive information about the company was only accessible, through a virtual data room, to the two bidders that were invited to the full due diligence, where all information requested was disclosed. It has to be noted that the expected transaction value was not communicated to potential buyers at any stage of the divestment process. The main issue in this transaction was that AUTOBAHN did not achieve the half-year budgeted results presented in the memorandum. According to the advisor, this was simply due to some errors in the company's budgeting process. The seller commented that the communication with regard to this issue was handled well, as potential buyers were informed about it well in advance. After the due diligence, the buyer adjusted the offer based on the updated budget and the deal could be closed within a few days. Even if the budget initially presented was wrong, it can be assumed that it was perceived differently, than being a mistake in the historic information presented.

Based on the above information, it can be reported that the seller and his advisor had the best intentions to manage the divestment process transparently and provide potential buyers with all the information they needed for their analysis of the investment opportunity. Only an issue related to the company's budget, but no risk to the transaction, was reported. Further, no money for guarantees had to be set aside in escrow accounts and no conditional or deferred payments were agreed upon. After the comparative analysis, it has been concluded that in the case of AUTOBAHN, there was very strong intention (5) to increase the transparency of target company information, and strong implementation (4).

6) The effect of well-controlled information dissemination to potential bidders in the process of divesting a privately held target

AUTOBAHN being a privately held company, potential buyers did not have any confidential information on the company or its shareholders before the initiation of the divestment process. Before the potential buyers received the memorandum, they had to sign a confidentiality agreement. In the blind profile provided beforehand, neither the company name nor any information that could reveal its identity were provided. The blind profile was sent to a targeted group of selected potential buyers. It can be assumed that the benefit they could obtain from confidential information provided was known to the sell-side. Upon signing a confidentiality agreement, the interested parties received a memorandum revealing the identities of the company and its owners. The little sensitive information was held back until the formal due diligence was started. Before the two most likely buyers were invited to a full due diligence by means of a virtual data room, 15 of the 48 bidders presenting an indicative offer were received for management meetings with the sellers. It was important to the seller not to disclose the algorithm they used for inventory planning to more buyers than absolutely necessary, and that the information requirements in the due diligence were the selection criteria. However, during the contacting phase, the advisor commented that in the case of AUTOBAHN, the potential damage from the disclosure of information was very limited. It has to be noted that the whole period from the reception of indicative offers to closing, where potentially sensitive information was revealed, took little more than three months.

Based on the above information, it can be reported that the seller and his advisor considered the need to protect confidential information, and implemented several measures in order to mitigate any risk of uncontrolled dissemination of confidential information. While during the contacting, the potential damage from the disclosure of information was considered to be very limited, for the invitation to the due diligence, it was considered that the disclosure of sensitive information had to be minimized. After the comparative analysis, it has been concluded that in the case of

AUTOBAHN, there was very strong intention (5) to control information dissemination to potential bidders, and strong implementation (4).

- 7) The benefit of articulating a compelling value and growth story for each buyer in the process of divesting a privately held target

The advisor commented that he expected the indicative offers to be within a wide range depending on the perspective of each potential buyer, while his client expected the bids to be in line with his advisor's valuation. It is important to note that the advisor sent the blind profile to a well-targeted selection of potential buyers and it can be assumed that growth and synergy potential were commented upon in the memorandum provided to the interested parties. However, strategic buyers did not submit any offers, possibly because they did not find synergies with the target company to be sufficient. According to the advisor, the assets in place can be very attractive for someone who would like to expand into multiple markets using AUTOBAHN's infrastructure and business model. It can be assumed that companies already active in e-commerce already have similar software solutions, and there is a risk of duplication. The advisor reported that as the buyer was a financial investor, no synergies with the target company existed. However, he commented that growth could now be accelerated using the resources of the new owners. Growth by acquisition was mentioned by the advisor as a possible strategy, which is in line with his comment that AUTOBAHN as a software business, with its assets, has a 20% higher value than if merely seen as an e-commerce company.

Based on the above information, it can be reported that the seller and his advisor highlighted the growth potential of the target company and particularly intended to contact potential buyers with synergies. The financial investors made offers above the stand-alone valuation. After the comparative analysis, it has been concluded that in the case of AUTOBAHN, there was very strong intention (5) to articulate a compelling value and growth story for each buyer, and strong implementation (4).

- 8) The benefit of an optimized auction process used when divesting a privately held target

The divestment process was initiated with the contacting of 350 potential buyers, of which 48 made an indicative offer at the same time. It was anticipated that, only after receiving indicative offers, it would become clear how much potential buyers were willing to offer. As the valuation range was very wide, it has to be assumed that bidders looked at the company very differently, which is in line with the advisor's statement that if the company is valued as software business, it could be worth at least 20% more than if considered a pure e-commerce company. Only two potential buyers were invited to conduct a full due diligence on the target company in order to

limit the disclosure of sensitive information. The advisor who was in charge of the divestment process and negotiations reported that all went according to plan. He further commented that the final bid of the buyer was submitted under the pressure of the competitive bidding round after the due diligence and, therefore, was based on favourable assumptions with regard to the necessary price adjustments. However, additional bidders would have qualified for the due diligence stage and, therefore, would have been in a position to participate in the final bidding round, if the disclosure of sensitive information had not been a selection criteria. While one bidder reduced the offer more substantially, the buyer agreed with the sell-side that the underachievement of the budget was not to be considered a substantial risk to the company's development, and applied the same multiple on the adjusted earnings. It has to be noted that the price expectations of the seller and the valuation of his advisor were not communicated to potential buyers.

Based on the above information, it can be reported that there was a competitive environment created, which was used to force bidders to make the highest possible offer from the beginning itself. After the due diligence, however, only a reduced auction-like process, calling for limited multiple binding offers, was conducted. After the comparative analysis, it has been concluded that in the case of AUTOBAHN, there was very strong intention (5) to optimize the auction process and strong implementation (4).

- 9) The benefit of deferred or conditional payments as part of the consideration when divesting a privately held target

Even if the valuation of USD 50.5 million paid was approximately 9% lower than indicated before due diligence, it was still above the valuation presented by the advisor to his client. An actual difference in the perception of value did not exist. According to the sell-side, underachieved budgets were explained sufficiently to the buyer, who agreed that the same multiple could be applied on an adjusted EBITDA. The seller commented that he was not going to accept deferred or conditional payments, but mentioned USD 30 million as the minimum acquisition price they wanted to receive. On the other hand, the deal which was closed is a majority acquisition where the sellers keep a dilution-protected 20% of AUTOBAHN's equity and, therefore, continue to be shareholders. Even after having sold 80% of the company they founded, they were going to continue managing the software business. It can be assumed that AUTOBAHN as a software business was more attractive to financial investors if still managed by its successful founders with aligned incentives. The transaction structure with resulting participation in a potential upside and downside by the sellers is, to a certain extent, comparable to a deal where a part of the acquisition price is structured as an earn-out.

Based on the above information, it can be reported that there was no intention to use deferred or conditional payments. This is could be due to fact that the perception in value was not significantly different and the sellers continue managing the company. Further, keeping an equity stake, the sellers still participate in the upside potential of the company they founded. After the comparative analysis, it has been concluded that in the case of AUTOBAHN, there was limited intention (2) to overcome price differences using deferred and conditional, and limited implementation (2).

10) The benefit of identification and mitigation of potential deal breakers in the process of divesting a privately held target

After due diligence, valuations had to be adjusted to reflect the half-year numbers which were below budget. This was perceived to be the main issue and potential risk to closing at this stage. According to the sell-side, underachieved budgets were well-explained and the management made an extraordinary effort to improve volume to get as close to the budgeted amount as possible. Therefore, the buyer agreed that the same multiple could be applied on an adjusted EBITDA rather than questioning the success of the business model in general. However, the second bidder involved at this stage of the process reduced its offer more significantly below the valuation presented by the advisor to his client. An additional issue could have potentially been the disclosure of the algorithm used by the company for inventory planning. However, the sell-side only invited potential buyers to the due diligence that did not require information that they did not want to disclose.

Based on the above information, it can be reported that the main issue to be addressed was the underachieved half-year budget, which was anticipated and handled by clear communication and extraordinary management efforts. In general, no major issues could be identified, as the focus was on not creating any potential deal breakers by a transparent communication with potential buyers throughout the divestment process. After the comparative analysis, it has been concluded that in the case of AUTOBAHN, there was very strong intention (5) to identify and mitigate potential deal breakers, and strong implementation (4).

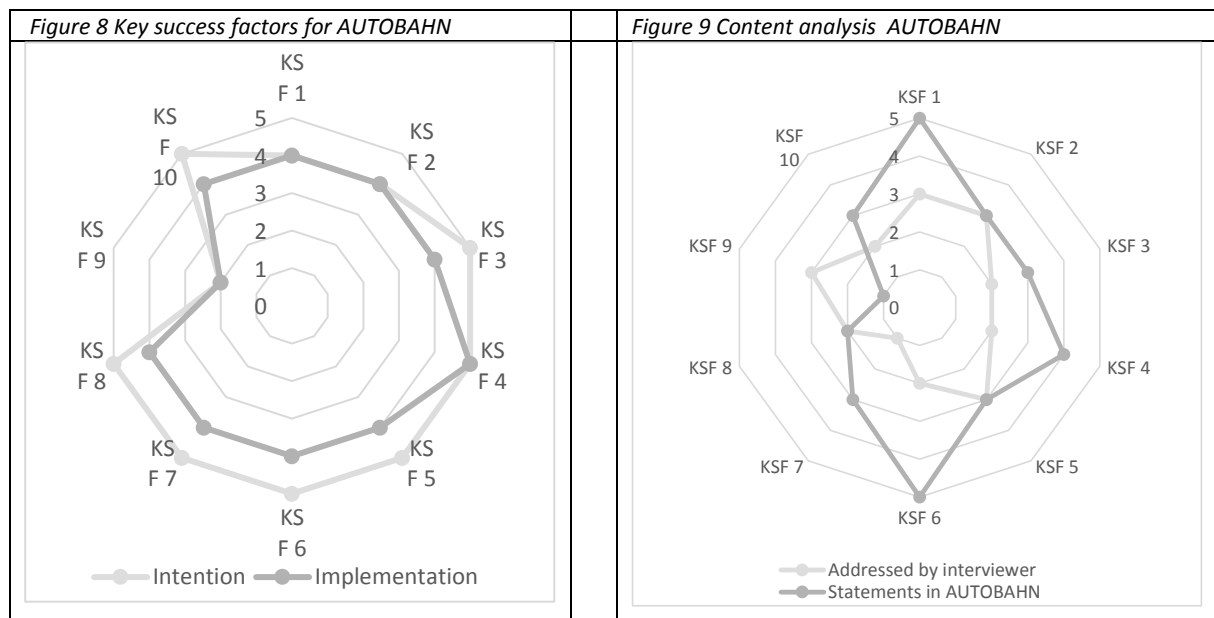
5.11.2 Outcome and conclusion

The outcome of the divestment process was the sale of 80% of AUTOBAHN's shares less than six months after the initiation of the divestment process. With an implied enterprise value of USD 50.5 million for 100%, this transaction was closed 1% above the fair value of the company as estimated by FirmB. USD 40.4 million was paid in cash at closing and the sellers kept a 20% equity stake in the company they had founded. The consideration paid indicates a multiple of

10 times the target company's budgeted 2014 EBITDA. The seller initially reported that they would sell the company at a valuation of at least USD 30 million. Even if no strategic bidders submitted a formal bid, there were many indicative offers with attractive valuations. In line with Advisor3's statement, Mergermarket (2014) reports that according to its survey, with 36 private equity firms, multiples paid in buy-outs were expected to increase in 2014. From 48 financial investors that had submitted a bid, the sellers could choose 15 that were invited to a management meeting, out of which two were invited to the due diligence process as most likely buyers. It has to be assumed that the buyer preferred a transaction structure that assured continuity in management with aligned incentives, which resulted in a deal where the founders kept 20% of their shares. Therefore, compatibility was assessed in multiple meetings where, according to the advisor, the added value of the buyer to the target company, capacity for acquisition financing, and the comfort level between the sellers and the potential buyers were analysed. The added value of FirmB as the exclusive advisor in the divestment process was perceived to be high. According to the advisor, they helped their client in positioning AUTOBAHN as a software business rather than an e-commerce company, which added substantially to the valuation. He commented that due to the process which was executed exactly as planned, a higher price was achieved especially because, when running into problems with earnings, the competitive environment helped to still negotiate an attractive valuation. His main conclusion was that the transaction value could be increased by 20% because of their work.

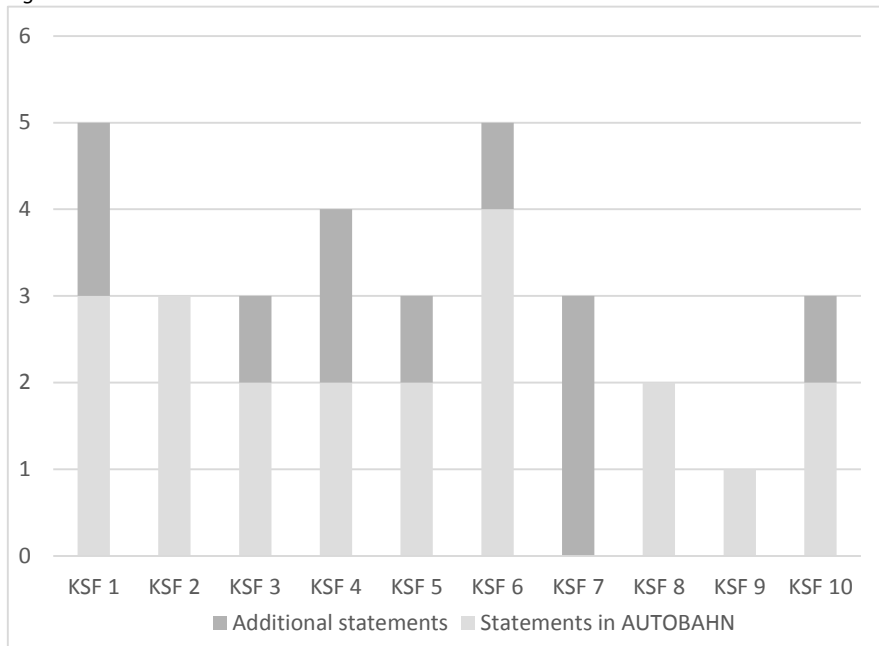
Based on the above information, it can be reported that the seller was satisfied with the outcome of the divestment process. The seller's price expectations were exceeded and a transaction structure considered a win-win solution for the sellers and the buyer could be found. Besides the necessary price adjustment to the underachievement of the budget presented, no major delays or risks to the transactions could be observed and closing the transaction within six months after contacting potential buyers seems very fast. After the comparative analysis, it has been concluded that in the case of AUTOBAHN, there was very strong optimization of valuation and proceeds (5), and very strong optimization of timing and risk (5).

The radar charts below compares the intention to optimize the 10 key success factors with the implementation and illustrate the results of the content analysis.



It can be concluded that there was a clearly observable strong intention (4.5) and relatively strong implementation (3.9) with respect to the key success factors of the divestment process which led to very strong optimization of the deal outcome (5) from a seller's perspective. The difference between intention and implementation is mainly explained by the fact that only financial investors were bidding for the target company, which was not foreseen before the initiation of the divestment process. The analysis of the data collected in this case has been conducted in comparison with the full sample. With respect to the mandate of FirmB, the seller reported that he was satisfied with the work of his advisor. The terms of their collaboration however, have not been addressed in this study. The radar chart on key success factors illustrate that the intention to optimize each key success factor was even a little higher than the observable implementation, while the radar chart based on the content analysis shows that the advisor mentioned clearly more often the need for confidentiality than the interviewer addressed this key success factor. This is in line with the intention (4) and the implementation (4) to optimize this key success factor. It could be observed that the advisor created a very competitive bidding process by inviting a large number of financial investors to make an offer, which is in line with the results of the content analysis.

Figure 10 Direct answers and additional statements AUTOBAHN



The statements with regards to the key success factor 7 (articulating a compelling value and growth story for each buyer) were not made in response to the related question. This can be explained by the fact that the advisor was presenting from the beginning AUTOBAHN as a software business instead of an e-commerce company, which he considered to be the main reason why financial investors were willing to offer higher valuations than anticipated by the client.

5.12 Case analysis PACKAGE

5.12.1 Key success factors

Based on the information obtained, a simple analysis of the main elements of the divestment process can be conducted. In the conclusion of the within case and cross case analyses, the intention to optimize a key success factor and its implementation has been commented.

- 1) The benefit of increased negotiation power through competition in the process of divesting a privately held target

FirmB was in charge of the divestment process, even if PACKAGE hired an additional external consultant who was in charge of data collection at the company. After the preparation phase, the seller authorized FirmB to start the process for a competitive sale. The advisor reported that the divestment process was very confidential and no strategic buyers from COUNTRY were contacted. Out of 30 potential buyers contacted, 29 were international strategic buyers and one was a private equity fund from COUNTRY who already had an investment in the sector. Seventeen memorandums were sent out upon the signing of the confidentiality agreement. After the receipt of three indicative offers, one bidder was invited to a pre due diligence, limited to

financials. It was the sell-side's objective to give full transparency on their financial situation and the possibility of making any necessary adjustments to the offer before continuing with a full due diligence. It has to be noted that according to the advisor during this phase, the sell-side pretended to have additional bidders in the process. However, based on the offer submitted after the virtual data room, the due diligence process had to be stopped as the offer was declined by the seller.

Based on the above information, it can be reported that the divestment process of PACKAGE was set up to be competitive. However, as confidentiality was of the highest priority and no strategic buyers were contacted, additional potential buyers were most likely excluded from the divestment process. Further, only one potential buyer was given full access to the company's financial information in order to make the most adequate indicative offer possible. After the comparative analysis, it has been concluded that in the case of PACKAGE, there was intention (3) to increase negotiation power by creating competition, and implementation (3).

- 2) The benefit of initiation of the sales process under favourable market conditions when divesting a privately held target

The market conditions were considered to be favourable from the moment the divestment process was initiated until closing. Monitoring M&A activities in COUNTRY, FirmB found that there was a tendency to conduct more transactions. However, according to Mergermarket (2013), the mid-market M&A deal volume in Europe and North America was relatively moderate in 2012 and 2013. North America, as a continent, and Europe could be relevant for the divestment process of PACKAGE as it was intended to close a cross border transaction. The advisor reported that he considered it a good moment to sell and that even when the divestment process had to be stopped, he did not relate it to any change in market conditions, as a lot of interest could be generated with potential buyers, and offers had been received.

Based on the above information, it can be reported that market conditions were considered by the seller and the advisor, and an analysis was conducted. However, it has to be assumed that market data that was relevant in the context of a possible cross border transaction was not fully included in the analysis. After the comparative analysis, it has been concluded that in the case of PACKAGE, there was strong intention (4) to initiate the sales process under favourable market conditions, and implementation (3).

- 3) The benefit of contacting a well-selected group of bidders with the highest potential synergies in the process of divesting a privately held target

Twenty-nine international strategic buyers and one financial investor from COUNTRY were confidentially contacted, mainly through FirmB's international network of advisors. The sell-side considered all of them to have a good strategic fit with PACKAGE. The advisor considered the interest in the target company to be high, as 17 potential buyers wanted to review the memorandum. Two visits with European companies from the same sector were organized. Finally, three offers were received, all of them from strategic bidders whereof one was planning a vertical integration of PACKAGE. However, after having had access to the target company's detailed financial statements, the best bid was reduced and, finally, rejected by the seller. The advisor commented, however, that this was not due to the lack of synergies but because the reported financials were not sufficient to justify the seller's optimistic projections and high price expectations.

Based on the information obtained, it can be concluded that bidders with potential synergies were selected and contacted in the divestment process. There was a clearly targeted contacting strategy. However, strategic buyers from COUNTRY were excluded from the process for confidentiality reasons. After the comparative analysis, it has been concluded that in the case of PACKAGE there was intention (3) to select a group of bidders with the highest potential synergies, and implementation (3).

- 4) The benefit of inviting financial investors with access to low cost leverage to the bidding process when divesting a privately held target

In the contacting phase of the divestment process, only one financial investor was directly contacted. The private equity fund from COUNTRY was considered the most likely buyer as they already had an investment in the target company's industry. However, according to the advisor, all three indicative offers received were submitted by strategic bidders. The advisor reported that in several cases, the shareholders of the contacted strategic buyers were institutional financial investors such as private equity firms.

Based on the information obtained, it can be concluded that no financial investors were informed about the acquisition opportunity presented to the bidders with potential synergies, unless they already had an investment in the target company's sector. After the comparative analysis, it has been concluded that in the case of PACKAGE, there was limited intention (2) to invite financial investors to the bidding process, and limited implementation (2).

- 5) The benefit of increased transparency of company information in the process of divesting a privately held target

PACKAGE being a privately held company, potential buyers did not have any information on the company's activities or its shareholder's strategic intentions before the initiation of the divestment process. The main characteristics of the company were indicated in the blind profile distributed to a well-targeted group of 30 potential buyers. Upon signing a confidentiality agreement, the interested parties received a memorandum including all information necessary to make an indicative offer for PACKAGE. At this stage, they were aware of the identities of the company and its owner, as well as his preferred transaction structure. According to the advisor, it was foreseen that the sole purpose of the due diligence would be to confirm the information from the memorandum. Besides accounting, fiscal, and legal information in the due diligence, sensitive information such as client names were also going to be revealed. After having received three indicative offers, one bidder was invited to a pre due diligence, where access to the detailed accounting figures was provided through a virtual data room. A Big4 accounting firm provided a light vendor due diligence on financials, and then, the bidder had the possibility to revise the offer before moving forward with a full due diligence. According to the advisor, for cost reasons, the sell-side first wanted to give full transparency on financials before proceeding with a full due diligence. It has to be noted that according to the advisor, during this phase, the sell-side pretended to have additional bidders in the process. After the pre due diligence, the bidder reduced the indicative offer and the seller decided to stop the divestment process. The advisor commented that the financial projections presented in the memorandum were hardly justifiable with the financial statements presented as part of the pre due diligence. Further, certain expenses paid in cash were not fully included in the financial statements; however, they were disclosed in the pre due diligence.

Based on the information obtained, it can be concluded that the advisor had the intention to manage the divestment process transparently and provide potential buyers with all the information they needed for their analysis of the investment opportunity. However, as the transaction had to be stopped after the bidder reduced his offer based on the review of the partial vendors' due diligence, it has to be understood that during the contacting phase of the divestment process, the level of transparency was insufficient. After the comparative analysis, it has been concluded that in the case of PACKAGE, there was intention (3) to increase transparency of the target company information, and limited implementation (2).

- 6) The effect of well controlled information dissemination to potential bidders in the process of divesting a privately held target

PACKAGE being a privately held company, potential buyers did not have any confidential information on the company or its shareholders before the initiation of the divestment process.

Before the potential buyers received the memorandum, they had to sign a confidentiality agreement. In the blind profile provided beforehand, neither the company name nor any information that could reveal its identity were provided. The blind profile was sent to a well-targeted group of selected potential buyers. It can be assumed that the benefit these investors could obtain from the confidential information provided was known to the sell-side. As strategic bidders from COUNTRY were excluded, the risk of any revealed information causing damage to PACKAGE was further reduced. Upon signing the confidentiality agreement, the interested parties received a memorandum revealing the identities of the company and its owner. The most sensitive information was held back and was only supposed to be revealed at the due diligence stage. However, a pre due diligence had to be conducted, where reviewed financials were presented to one buyer, after which the due diligence process was stopped. The advisor commented that the financial projections presented in the memorandum were not exactly confirmed by the vendor due diligence. It has to be assumed that presenting the most adequate financials already in the memorandum would have resulted in lower bids, and a faster abandonment of the divestment process.

Based on the information obtained, it can be concluded that the seller and his advisor considered the need to protect confidential information, and implemented several measures, in order to mitigate any risk of uncontrolled dissemination of confidential information. While not contacting local industry players reduced the risk from information dissemination, sending out financials that could not be backed in the pre due diligence potentially increased it. After the comparative analysis, it has been concluded that in the case of PACKAGE, there was strong intention (5) to control information dissemination to potential bidders, and implementation (4).

- 7) The benefit of articulating a compelling value and growth story for each buyer in the process of divesting a privately held target

The advisor commented that he expected the indicative offers to be in line with his stand-alone valuation, while his client expected a higher bid. It is important to note that the advisor sent the blind profile to a well-targeted selection of potential buyers. It can be assumed that growth and synergy potential were commented upon in the memorandum provided to the interested parties. The advisor commented that he considered the indicative offer presented by the potential buyer that conducted a pre due diligence to be acceptable from a seller's perspective. However, he did not believe that it would have been a bargain for the buy-side despite the very significant strategic advantages they could have achieved with the acquisition. The advisor commented that a potential improvement under new ownership would be the acquisition of more international clients, better organisation, and more transparency. He considered the current lack

of transparency to be a negative and a challenge to a potential new owner of PACKAGE. It has to be noted that according to the advisor, FirmB's valuation as initially presented was too high, as the projections used were too optimistic and certain expenses were underestimated as they did not appear in PACKAGE's financial statements. The seller rejected the adjusted indicative offer.

Based on the information obtained, it can be concluded that the seller and his advisor highlighted the growth potential of the target company and particularly contacted potential buyers with synergies. However, there is no indication of analysis or tailor made presentations with regard to synergies for growth with a particular potential buyer. After the comparative analysis, it has been concluded that in the case of PACKAGE, there was intention (3) to articulate a compelling value and growth story for each buyer, and implementation (3).

8) The benefit of an optimized auction process used when divesting a privately held target

The divestment process was initiated with the contacting of 30 potential buyers, of which three made an indicative offer simultaneously. The advisor in charge of the divestment process and negotiations reported that the divestment process started well and that many companies were interested in PACKAGE. However, as the financial information provided to the interested parties was insufficiently transparent, the process slowed down and it became more difficult to market the investment opportunity to the potential buyers. It has to be noted that during the pre due diligence with one potential buyer, the sell-side pretended to have additional bidders. After the pre due diligence the indicative offer was reduced and the divestment process stopped.

Based on the information obtained, it can be concluded that there was a competitive environment created, which was used to force bidders to make the highest possible offer from the beginning itself. Although only one bidder was invited to conduct a pre due diligence, the sell-side tried to maintain a competitive bidding environment. However, actually inviting the other bidders to the pre due diligence might have generated additional revised indicative offers. After the comparative analysis, it has been concluded that in the case of PACKAGE, there was intention (3) to optimize the auction process, and implementation (3).

9) The benefit of deferred or conditional payments as part of the consideration when divesting a privately held target

The divestment process was aborted due to a difference in valuation perception. While the seller expected USD 30 million for 100% of his shares, the indicative offer, after having reviewed the financial information in detail, was defined as ranging from USD 16 to 20 million. The advisor

commented that the price difference was too big to be overcome and that only an improvement of the bid could make a transaction between the two parties possible. He further reported that even if the client expected USD 30 million, the lower limit was not exactly known to FirmB. It has to be noted that neither the seller nor his advisor reported the intention to use deferred or conditional payments at any stage of the divestment process.

Based on the information obtained, it can be concluded that there was no intention to use deferred or conditional payments as part of the consideration. This is most likely to be because the perception in value was too different to be overcome. After the comparative analysis, it has been concluded that in the case of PACKAGE, there was limited intention (2) to overcome price differences using deferred or conditional payments, and limited implementation (2).

10) The benefit of the identification and mitigation of potential deal breakers in the process of divesting a privately held target

The sell-side considered differences in value perception to be the most important risk to the transaction. While the client considered USD 30 million to be the fair market value of his company, FirmB valued PACKAGE at USD 25 million. The advisor even commented that after having adjusted the financial projections based on the information not available when the divestment process was initiated, selling the company for USD 20 million could be advisable. The buyer initially offered up to USD 28 million, subject to due diligence, but reduced the bid to a maximum of USD 20 million after having had access to the financial statements part of a pre due diligence. According to the advisor, the valuation gap was too significant to overcome. He commented that the price expectations of the seller were too high, considering the financial statements including all expenses and adjusted projections. He reported that a Big4 audit firm was hired to conduct a limited vendor due diligence on PACKAGE's financials, in order to assure transparency which was identified as a potential deal breaker. However, it has to be assumed that better transparency by the seller and clear expectation management by his advisor would have been a more appropriate measure to either decrease the risk to closing or not even initiating the divestment process.

Based on the information obtained, it can be concluded that differences in value perception were identified as the major deal breaker but could not be mitigated. Further, a lack of transparency led to inadequate valuations by FirmB and the buy-side. When the advisor recognized this potential deal breaker, he tried to mitigate it by arranging for a pre due diligence on the financials. After the comparative analysis, it has been concluded that in the case of

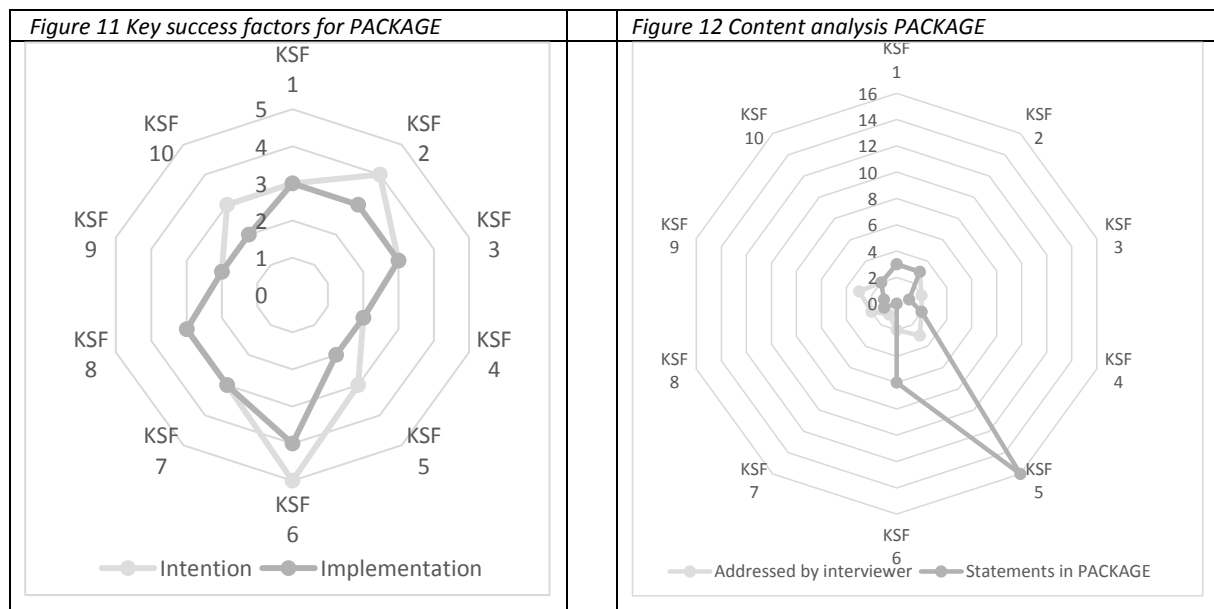
PACKAGE, there was intention (3) to identify and mitigate potential deal breakers, and limited implementation (2).

5.12.2 Outcome and conclusion

The outcome of the divestment process was the rejection of the indicative offers presented six months after the start of contacting. After a pre due diligence granting full transparency on the target company's financials, the highest indicative offer of up to USD 28 million was reduced to a maximum of USD 20 million, which was still subject to full due diligence. The last valuation presented by the buy-side was 33% below the seller's expectations and 20% below his advisor's initially valuation. However, the advisor commented that the initial valuation conducted by FirmB was based on financial statements that failed to include part of PACKAGE's expenses, and that the projections they used seemed too optimistic. Therefore, he considered the adjusted indicative offer as acceptable. In terms of multiples, the last indicative offer was 6.4 times the target company's 2013 EBITDA. The client took the decision to sell independently and for personal reasons. Besides entrusting FirmB with the divestment process, he also hired an external consultant to collect all the required information from PACKAGE and submit it to the M&A advisor. Initial meetings between Advisor4 and his client took place, but most information was prepared by the additional external advisor. According to Advisor4, this resulted in inferior transparency and a less efficient process, although he commented positively on the collaboration with the external advisor. He considered the divestment process to be correctly set up and highlighted that a lot of interest was generated with potential buyers. In the advisor's opinion, the seller did not accept the adjusted indicative offer because of his high expectations which can only be justified with very optimistic projections of PACKAGE's financials. If, by the beginning of 2015, reported figures supporting these projections are available, renegotiating a potential transaction with the same bidder could be possible.

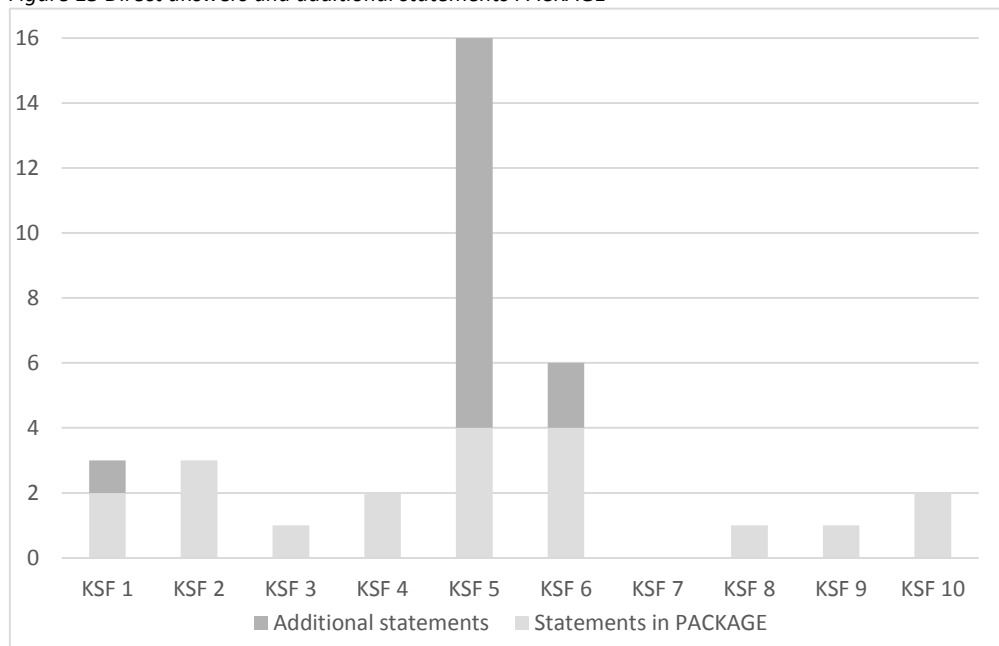
Based on the above information, it can be reported that after a period of 6 months, the seller decided that the initially highest indicative offer adjusted based on a pre due diligence was not acceptable. Therefore, he preferred to stop the due diligence process and abort the divestment process. As the expected valuation was significantly above this offer and no other potential buyers were currently preparing an offer, it has to be understood that no transaction could take place within a year of initiation of the divestment process. After the comparative analysis, it has been concluded that in the case of PACKAGE, there was limited optimization of valuation and proceeds (2), and limited optimization of timing and risk (2).

The radar charts below compares the intention to optimize the 10 key success factors with the implementation and illustrate the results of the content analysis.



It can be concluded that there was reported intention (3.1) and partially observable implementation (2.7) with respect to the key success factor of the divestment process that led to limited optimization of the deal outcome (2.0) from a seller's perspective. The difference between intention and implementation is mainly explained by the fact that the seller had to amend information previously distributed to potential buyers, which was not expected by his advisor before the initiation of the divestment process. The analysis of the data collected in this case has been conducted in comparison with the full sample. With respect to the mandate of FirmB's advisors, no statement was made by the seller with regard to his satisfaction with the work of his advisor up to the final reported stage of the process. The terms of their collaboration have not been addressed in this study. The radar chart on key success factors illustrate that the intention to optimize each key success factor was even a little higher than the observable implementation, while the radar chart based on the content analysis shows that the advisor mentioned clearly more often the need for transparency than the interviewer addressed this key success factor. It could be observed that the advisor was taken by surprise when his client had to disclose during the process that there were some errors in the financial information provided. This is why during the interviews the importance of transparency was exhaustively discussed.

Figure 13 Direct answers and additional statements PACKAGE



No statement about articulating a compelling value and growth story for each buyer was made by the advisor that almost exclusively contacted international strategic buyers that could potential have an interest in acquiring PACKAGE in order to enter a new market. Many statements concerning key success factor 5 (increasing transparency of target company information) were made and most of them not as a direct answer to a related question. This can be explained by the circumstance that the divestment process had to be put on hold and that the advisor explained that this was due to the client not being sufficiently transparent with him and the potential buyer. Ten statements made by the advisor can be attributed to this explanation of what went wrong and how it should have been done instead.

5.13 Case analysis WINDOW

5.13.1 Key success factors

Based on the information obtained, a simple analysis of the main elements of the divestment process can be conducted. In the conclusion for the within case and cross case analyses, the intention to optimize a key success factor and its implementation has been commented upon.

- 1) The benefit of increased negotiation power through competition in the process of divesting a privately held target

During the contacting phase, the advisor described the divestment process as competitive in the sense that, based on a well-targeted short list, 20 potential buyers were presented with the investment opportunity. He commented that he was making sure that bids were all coming in around the same time in order to compare them and get an understanding of what the market was willing to offer. It was the objective to create competition in the bidding process with regard

to price optimization and the control of timing. The seller stated that the divestment process was set up and conducted by Advisor5, who was also in charge of the negotiations. After having contacted 20 potential buyers, five indicative offers were received. Even if the seller had expected more interest from both types of potential buyers, no additional parties were contacted after the reception of indicative offers. With the support of Advisor5, the seller selected three bidders for an in-depth due diligence, based on the valuation and transaction structure offered. One strategic buyer who was most likely to close a transaction and two private investors who made higher bids, both suggested important conditional payments in the earn-out structure. After the due diligence, the most likely buyer increased the offer from USD 16 million, without earn-out payments, to USD 16 million in cash plus USD 3 million in earn-out payments. The advisor reported that the buyer increased the offer based on the comment that there were additional bidders in the due diligence process that offered attractive earn-out schemes to the seller.

Based on the above information, it can be reported that the divestment process of WINDOW was competitive. However, as only a limited number of potential buyers were informed about the acquisition opportunity, the risk that potentially interested parties were not invited to submit a bid seems substantial. Further, in the final phase of the divestment process, priority was given to the negotiations with the most likely buyer, who was previously identified. After the comparative analysis, it has been concluded that in the case of WINDOW, there was strong intention (4) to increase negotiation power by creating competition, and strong implementation (4).

- 2) The benefit of initiating the sales process under favourable market conditions when divesting a privately held target

The market conditions were considered to be favourable from the moment the divestment process was initiated until its closing. As the shareholder of WINDOW had already attempted to sell the company two years earlier, it was also commented that market conditions were better now than at that time. However, the main reason why the sell-side believed that it would be able to sell WINDOW in this second attempt was because of the target company's development rather than a significant change in the market environment. The advisor commented that the economy had been recovering, and that some of the potential buyers had shown interest in growth by acquisition. While he considered that banks were still very restrictive with leverage financing, he recommended a divestment at this time, as any macroeconomic setback or a change in consumer sentiment trend could damage the market conditions. The seller commented that in the 90s, his company would have been sold very quickly. According to

Mergermarket (2013), the mid-market M&A deal volume in Europe was relatively moderate in 2012 and 2013. However, the study also recognizes that there are different tendencies in each sector that could not be addressed to the level of the niche sectors in which WINDOW is active. Although the sell-side considered market conditions when deciding to make a second attempt to sell the company, there was no indication that the seller and his advisor waited to initiate, or interrupted, the divestment process in order to wait for a particular market environment. This is most likely because it was not necessary.

Based on the above information, it can be reported that market conditions were considered by the seller and the advisor, but no particular analysis was conducted. After the comparative analysis, it has been concluded that in the case of WINDOW, there was intention (3) to initiate the sales process under favourable market conditions, and implementation (3).

- 3) The benefit of contacting a well-selected group of bidders with the highest potential synergies in the process of divesting a privately held target

The particularity of this divestment process was that it was the second attempt to sell the company. Several potential buyers that were contacted knew WINDOW already from the first divestment process. In turn, it can be assumed that the seller and his advisor already had a good understanding of the universe of potential buyers. Ten strategic buyers and 10 financial investors were confidentially contacted, and five indicative offers were received. Two offers were presented by strategic buyers who were selected for the contacting phase due to the synergies they could potentially have with WINDOW. The other three bids were from private investors who considered WINDOW as an MBI opportunity. While the highest indicative offers were submitted by private investors, the transaction was closed with a strategic buyer who had known the target company before, with no relevant financing constraints and the possibility to increase the offer through an earn-out structure after the due diligence.

Based on the above information, it can be reported that bidders with potential synergies were selected and contacted in the divestment process. There was a clearly targeted contacting strategy and the transaction was closed with a buyer who had potential synergies with WINDOW. However, no comprehensive list of strategic buyers who potentially have synergies with the target company was presented to the seller. After the comparative analysis, it has been concluded that in the case of WINDOW, there was strong intention (4) to select a group of bidders with the highest potential synergies, and strong implementation (4).

- 4) The benefit of inviting financial investors with access to low cost leverage to the bidding process when divesting a privately held target

As commented before, the particularity of this divestment process was that it was the second attempt to sell WINDOW, which implies that, from previous experience, the sell-side already knew which potential buyers had to be contacted. Besides the 10 strategic buyers, 10 financial investors were also confidentially contacted. It has to be assumed that the group of financial investors also included the three private investors that submitted an indicative offer. While the transaction was closed with a strategic buyer, the advisor commented that the buyer improved the bid after the due diligence in order to compete with the private investors who had already included attractive earn-out payment schemes in the indicative offer.

Based on the above information, it can be reported that a well-selected group of financial investors were informed about the acquisition opportunity presented to the bidders with potential synergies. However, it has to be assumed that other financial investors could have been interested in the acquisition opportunity, because the universe of private investors that are looking for an MBI opportunity can most likely not be fully covered with a targeted list prepared by an M&A advisor. After the comparative analysis, it has been concluded that in the case of WINDOW, there was strong intention (4) to invite financial investors to the bidding, and strong implementation (4).

- 5) The benefit of increased transparency of company information in the process of divesting a privately held target

WINDOW being a privately held company, potential buyers did not have any information on the company's activities or its shareholder's strategic intentions before the first divestment process that was conducted two years earlier. For the second divestment attempt, a well-targeted group of 20 potential buyers was contacted with a blind profile not revealing the identity of the target company. However, the advisor commented that once interested parties signed a confidentiality agreement, full transparency was provided. Sufficient information with regard to the company and its activities, in order to make an indicative offer, was presented in a memorandum, including the name of the company and its shareholder. The names of major suppliers and clients as well as other sensitive information about the company were only accessible through a virtual data room, to the three bidders that were invited to the full due diligence. Also part of the due diligence was a management meeting with the seller. While the preferred transaction structure of a 100% divestment was already indicated in the blind profile, the expected transaction value was not communicated to potential buyers at any stage of the divestment process. It has to be noted that before and after the due diligence, it was reported that no potential deal breakers could be identified and no particular risks to closing were expected. The only critical issue identified by the advisor was that of WINDOW's patents.

Further, the entire period from the receipt of indicative offers to closing, including all parts of the due diligence, took little more than two months. After the due diligence, the sell-side managed to negotiate the price favourably and closed the deal within a few weeks.

Based on the above information, it can be reported that the seller and his advisor had the best intentions to manage the divestment process transparently and provide potential buyers with all the information they needed for their analysis of the investment opportunity. Further, there did not seem to be any major risks to the transaction. Further, no money for guarantees had to be set aside in escrow accounts and the earn-out payments comprised only approximately 10% of the total purchase price. After the comparative analysis, it has been concluded that in the case of WINDOW, there was very strong intention (5) to increase the transparency of the target company information, and very strong implementation (5).

- 6) The effect of well controlled information dissemination to potential bidders in the process of divesting a privately held target

WINDOW being a privately held company, potential buyers did not have any information on the company's activities or its shareholders strategic intentions before the first divestment process that was conducted two years earlier. Before the potential buyers receive the memorandum, they had to sign a confidentiality agreement. In the blind profile provided beforehand, neither the company name nor any information that could reveal its identity was provided. The advisor commented that in the particular case of WINDOW, not even an exact product description could be provided without taking the risk of having the company's identity revealed. The blind profile was sent to a well-targeted group of selected potential buyers. It can be assumed that the benefit these investors could obtain from the confidential information provided was known to the sell-side. Upon signing a confidentiality agreement, the interested parties received a memorandum revealing the identities of the company and its owners. The little sensitive information was held back until the formal due diligence was started. The due diligence consisted of a virtual data room and management meetings with the seller. Three of the five bidders were invited to the full due diligence, where all sensitive information was provided. The advisor commented that even if he considered it difficult to legally enforce a confidentiality agreement, full transparency after its signing was in the best interest of his client. He reported that the only damage to the company could be unwanted market rumours, but that there were no major business secrets that needed to be protected. It has to be noted that the whole period from the receipt of the indicative offer to closing, where potentially sensitive information was revealed, took little more than two months.

Based on the above information, it can be reported that the seller and his advisor considered the need to protect confidential information and implemented several measures in order to mitigate any risk of the uncontrolled dissemination of confidential information. However, it has to be noted that additional potential buyers were invited to a full due diligence even if the most likely buyer had already been identified by the sell-side based on indicative offers. After the comparative analysis, it has been concluded that in the case of WINDOW, there was strong intention (4) to control information dissemination to potential bidders, and implementation (3).

- 7) The benefit of articulating a compelling value and growth story for each buyer in the process of divesting a privately held target

The advisor commented that he expected the indicative offers to be in line with his stand-alone valuation, while his client expected a higher bid. It is important to note that the advisor sent the blind profile to a well-targeted selection of potential buyers. It can be assumed that the growth and synergy potential were commented upon in the memorandum provided to the interested parties. Further, some potential buyers who were contacted already knew WINDOW and its activities from an earlier divestment attempt. The advisor commented that he considered it difficult to specify how much value was created in the transaction. However, he reported that there were synergies with regard to product lines and the client base, which were not included in the price paid to the seller. The seller himself estimated that in addition to the total consideration paid to him, including all earn-out payments possible, an additional USD 3-5 million of economic value was created in the transaction. Since the transaction value did not include any potential synergies, this potential value created would be to the benefit of the acquirer.

Based on the above information, it can be reported that the seller and his advisor highlighted the growth potential of the target company and particularly contacted potential buyers with synergies. However, there is no indication of analyses or tailor made presentations with regard to synergies for growth with a particular potential buyer. After the comparative analysis, it has been concluded that in the case of WINDOW, there was intention (3) to articulate a compelling value and growth story for each buyer, and implementation (3).

- 8) The benefit of an optimized auction process used when divesting a privately held target

The divestment process was initiated with the contacting of 20 potential buyers, of which five made an indicative offer at the same time. As multiple indicative offers were received at the same time, more than one bidder was invited to conduct a full due diligence. Besides the most likely buyer, two private investors were invited to the due diligence process even if they were

not expected to be able to compete in the final bidding round. According to the advisor, by the time the buyer made his binding offer, he was informed that competing bidders offered attractive earn-out schemes and, therefore, improved the offer using the same mechanism of conditional deferred payments. However, the private investors who made the highest indicative offers did not improve their bid in the final phase of the divestment process. The sell-side reported a preference for a buyer who did not rely on third party financing in order to pay the acquisition price. It has to be noted that the price expectations of the seller and the valuation of his advisor were not communicated to potential buyers. The advisor commented that, in theory, it is a controlled auction which allows optimization of the price, but in practice, this only works if there is sufficient interest from the bidders.

Based on the above information, it can be reported that there was a competitive environment created, which was used to force bidders to make the highest possible offer. However, after the due diligence, only a reduced auction-like process, calling for limited multiple binding offers, was conducted. After the comparative analysis, it has been concluded that in the case of WINDOW, there was very strong intention (5) to optimize the auction process, and strong implementation (4).

- 9) The benefit of deferred or conditional payments as part of the consideration when divesting a privately held target

The seller indicated that his price expectation was of USD 20 million for 100%, which was significantly above the valuation range of USD 17 to 18 million reported by his advisor. Before any indicative offers were received, the seller and his advisor reported that earn-out payments could be used if potential buyers did not share the seller's view on projected financials. With regard to the possibility of overcoming any difference in valuation perception, the advisor commented that any earn-out mechanism would have to use easily measurable indicators, and that it should create an incentive for the new owners to outperform projections, making an extra gain while paying out to the seller the maximum transaction value agreed upon. The transaction was closed with a cash payment of USD 16 million plus a three-year earn-out structure for a total value of USD 3 million. The deal documentation indicates that this USD 3 million corresponds to 10 to 20% of the transaction value. It has to be assumed that the exact amount received by the seller as earn-out payments depends on the financial results, being USD 3 million if the financial projections were to be exactly matched. The advisor commented that the USD 3 million in earn-out payments brought the seller and buyer very close together on price expectations and that with this buyer, the risk of not achieving the projections was significantly lower than with any of the private investors. The advisor mentioned at the beginning of the

divestment process that he considered a mechanism where the earn-out payments represented a percentage of the target company's EBIT as a suitable solution.

Based on the above information, it can be reported that the use of deferred or conditional payments as part of the acquisition price was considered even before indicative offers were received. However, the client also mentioned that he preferred not to assume any entrepreneurial risks managed by a potential new owner. In the end, earn-out payments were used for 16% of the total acquisition price in order to close the transaction with a 5% discount on the stand-alone valuation instead of 20%. After the comparative analysis, it has been concluded that in the case of WINDOW, there was strong intention (4) to overcome price differences using deferred or conditional payments, and strong implementation (4).

10) The benefit of the identification and mitigation of potential deal breakers in the process of divesting a privately held target

The sell-side considered differences in value perception to be the most important risk to the transaction. While the client considered USD 20 million to be the fair market value of his company, Advsior5 valued WINDOW at USD 17 to 18 million. He even commented that from his client's perspective, selling the company for at least USD 15 million plus an earn-out structure could be viable as his health conditions did not allow him to manage WINDOW for much longer. The buyer initially offered USD 15 million, subject to the due diligence. According to the advisor, he mitigated this major deal breaker by negotiating an additional USD 1 million to be paid to the seller for non-operating cash on WINDOW's balance sheet and an earn-out payment which was linked to the EBIT projected for the next three years. An additional issue that was identified was that of the patents owned by the target company. The most important patents had already expired before the initiation of the divestment process and no major effects on the company's earnings were observed. Therefore, and because the most likely buyer already knew the target company from an earlier divestment attempt, the sell-side did not consider this issue to be a potential deal breaker.

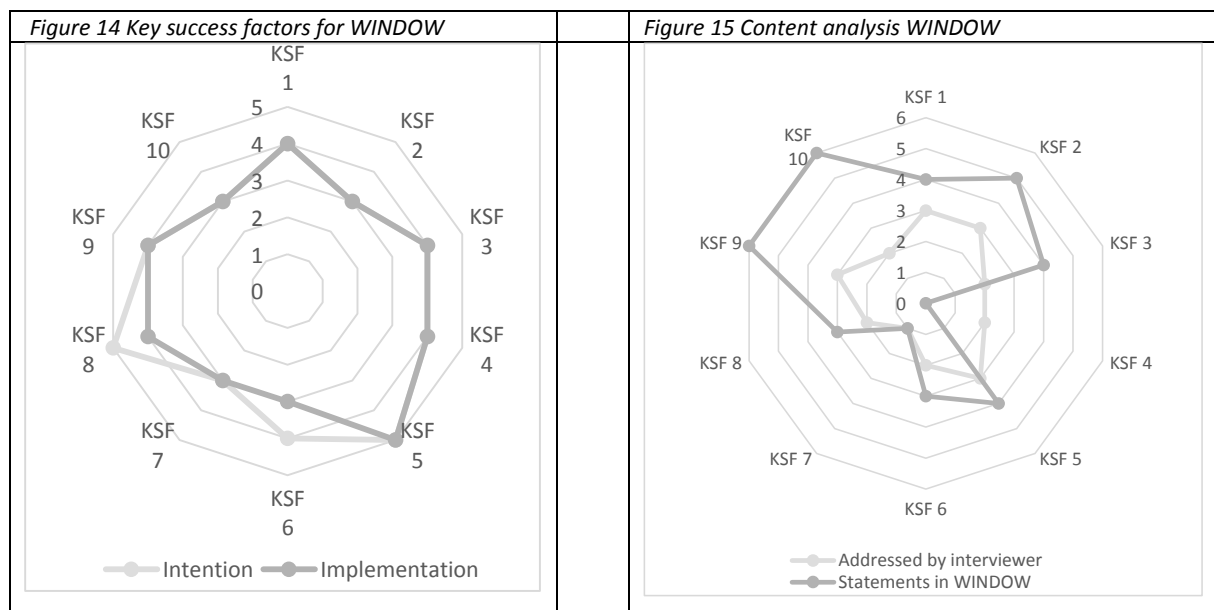
Based on the above information, it can be reported that differences in value perception were identified as the major deal breaker, and were mitigated by the use of conditional deferred payments. Further, rather than identifying deal breakers, the focus was on not creating any potential deal breakers by a transparent communication with potential buyers throughout the divestment process. After the comparative analysis, it has been concluded that in the case of WINDOW, there was intention (3) to identify and mitigate potential deal breakers, and implementation (3).

5.13.2 Outcome and conclusion

The outcome of the divestment process was the sale of 100% of WINDOW's shares, five months after the initiation of the divestment process. With a sales price of USD 19 million, the valuation paid in this transaction was 5 to 11% above the stand-alone value of the company, but 5% below the price expected by the seller. Eighty-four per cent of the consideration was paid in cash at closing, and 16% was included in an earn-out scheme. The total consideration paid indicates a multiple of 8.5 on the target company's 2013 EBIT. After a first divestment attempt two years earlier, WINDOW's founder and sole shareholder decided to initiate, again with the support of Advisor5, a divestment process in order to retire. Since no family member was in a position to take over the business, it was his clear intention to sell the company, assuring leadership and ownership succession at the same time. The advisor highlighted from the beginning that his client's price expectation of USD 20 million was too high, and presented him a valuation of USD 17 to 18 million based on recent transaction multiples of comparable target companies. As the bidders used a similar methodological approach, the best indicative offers were 15% below the client's expectation, in line with the advisor's valuation. Even if the buyer's indicative offer was 25% below, the valuation gap could be reduced using an earn-out scheme. The advisor reported that he was convinced that the USD 16 million plus the USD 3 million in earn-out payments were the maximum possible amounts which could be received at this time. He commented that the buyer potentially had synergies and, most importantly, the capacities to manage WINDOW immediately after the takeover. Having a considerably lower operational risk than a bidder without the management experience in-house, the buyer was in a position to pay most of the acquisition price at closing in cash. Further, the seller considered that the transaction was a good deal with the best possible buyer. The added value of the advisor was his contribution in terms of price maximization, minimization of time to closing, and the risk to the transaction. The advisor was satisfied with the work of the advisor who had already worked with him when he first attempted to sell WINDOW.

Based on the above information, it can be reported that the seller was satisfied with the outcome of the divestment process. Even if the seller's price expectations were not met, the valuation was perceived to be the best possible deal. Besides the difference in valuation perception, no major delays or risks to the transaction could be observed, and closing the transaction within four months after contacting potential buyers seems very fast. However, it has to be noted that this divestment process was the second attempt within two years. After the comparative analysis, it has been concluded that in the case of WINDOW, there was strong optimization of valuation and proceeds (4), and strong optimization of timing and risk (4).

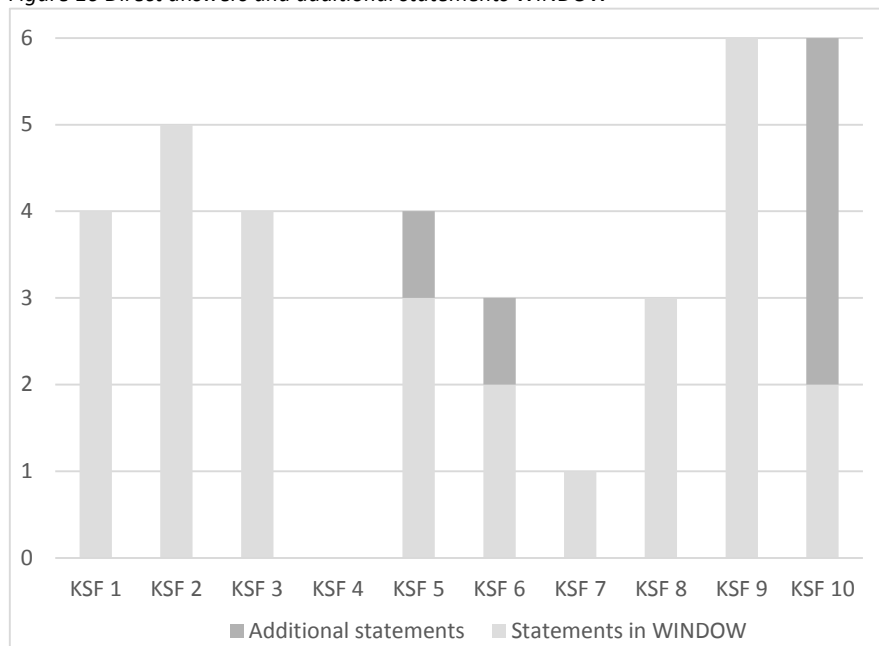
The radar charts below compares the intention to optimize the 10 key success factors with the implementation and illustrate the results of the content analysis.



It can be concluded that there was a relatively strong intention (3.9) and relatively strong implementation (3.7) with respect to the key success factor of the divestment process that led to strong optimization of the deal outcome (4) from a seller's perspective. The analysis of the data collected in this case has been conducted in comparison with the full sample. With respect to the mandate of Advisor5, the seller reported that he was satisfied with his work. The terms of their collaboration, however, have not been addressed in this study.

The radar chart on key success factors illustrate that the intention to optimize each key success factor was very comparable to the observable implementation, while the radar chart based on the content analysis shows that the advisor mentioned clearly more often the use of earn-out payments than the interviewer addressed this key success factor. This is in line with the intention (4) and the implementation (4) to optimize this key success factor. While market conditions and synergies of strategic buyers were commented on more often than required, the advisor did not explicitly talk about financial investors. In addition, the need for mitigation of potential deal breakers was mentioned more often as the advisor was comparing the ongoing divestment process with an unsuccessful previous attempt to sell WINDOW.

Figure 16 Direct answers and additional statements WINDOW



The advisor that contacted mainly strategic buyers and private investors that potentially perceived WINDOW as a management buy-in opportunity made no statement about inviting financial investors to the bidding process. Most statements concerning the key success factor 10 (identifying and mitigating potential deal breakers) were made without being asked for. This can be explained by the circumstance that the reported divestment process was the second attempt to sell WINDOW and its shareholder still perceived the value of his company to be higher than his advisor.

5.14 Comparative analysis

5.14.1 Comparing key success factors

The systematic cross case analysis has been conducted in order to make the conclusions about each case presented in the previous sections. These conclusions were only possible after having compared the way that the different advisors intent to optimize the key success factors and implement this in the divestment process. In addition, the discussion of similarities and differences with regard to the elements studies in the different divestment processes has been reported in the following section. The below radar charts illustrate that at the level of the individual cases, differences could be observed in all of the five divestment processes.

Figure 17 Conclusions on intention

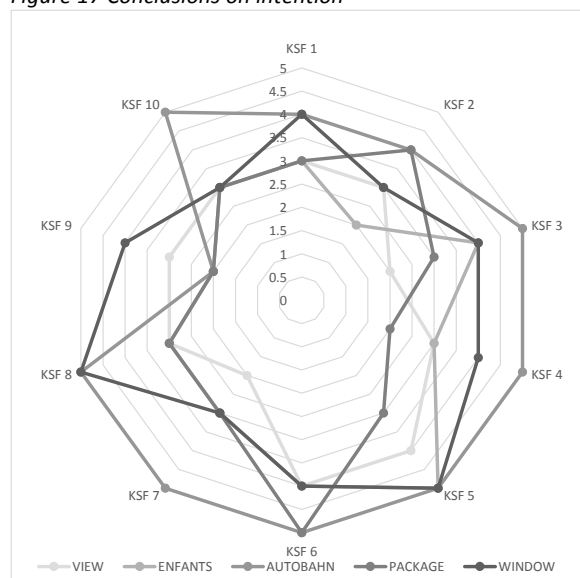
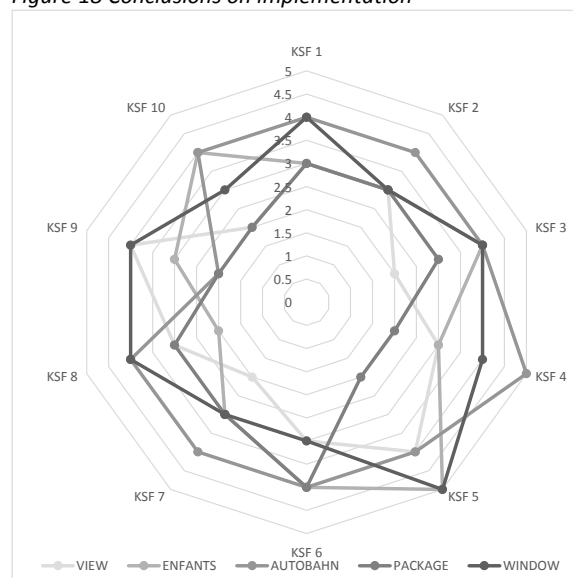


Figure 18 Conclusions on implementation



This chapter is structured by the optimization of the key success factors and outcome. Further findings, such as a potential trade-off between the optimization of one key success factor at the expense of another, are discussed in the conclusion from multiple case studies.

- 1) The benefit of increased negotiation power through competition in the process of divesting a privately held target

In all cases, the divestment process was initiated with a large group of potential buyers and the intention to receive multiple offers. In the case of ENFANTS, AUTOBAHN, PACKAGE, and WINDOW, the indicative offers were subject to a deadline in order to make it easier for the seller to select the most competitive bidder and invite it to the due diligence process. All of them proactively selected, out of the universe of potential buyers, the most suitable ones to be contacted. AUTOBAHN and WINDOW invited multiple bidders to conduct a full due diligence on the target company. In the case of VIEW, only one indicative offer was received, whereas in the case of ENFANTS and PACKAGE, only the most likely buyer conducted a due diligence. However, in none of the cases was it reported that a bidder was granted exclusivity or that competing bidders were definitively rejected before a transaction was closed.

Table 18 Overview 1 Increasing negotiation power by creating competition

Case	Intention	Implementation	Comment
VIEW	Intention (3)	Implementation (3)	Not stronger competition in the divestment process
ENFANTS	Intention (3)	Implementation (3)	Not stronger competition in final negotiation stage of the process
AUTOBAHN	Strong intention (4)	Strong implementation (4)	Not strongest competition in final negotiation stage of the process
PACKAGE	Intention (3)	Implementation (3)	Not stronger competition in the divestment process
WINDOW	Strong intention (4)	Strong implementation (4)	Not strongest competition in final negotiation stage of the process

- 2) The benefit of initiation of the sales process under favourable market conditions when divesting a privately held target

The contacting phase of the five divestment processes was initiated within a period of 13 months, between January 2013 and February 2014. According to Mergermarket (2013), the M&A market environment in Europe and North America was relatively moderate at that time. However, even if all five target companies were located in these regions, it has to be noted that the market environment can vary from one country to another and, more importantly, depends on the sector and activity of the target company. While AUTOBAHN and PACKAGE reported that they had conducted an analysis of the market environment, it has to be understood that the moment to go to market was not particularly chosen. Interestingly, both ENFANTS and VIEW reported that the market environment in their country was favourable because of the particular circumstances in the countries in which many potential buyers were located. In the case of PACKAGE, the analysis of the market environment in the regions where most potential buyers were from was neglected, whereas it has to be assumed that WINDOW made the decision to go to market mainly in consideration of its own business cycle.

Table 19 Overview 2 Initiating the sales process under favourable market conditions

Case	Intention	Implementation	Comment
VIEW	Intention (3)	Implementation (3)	No particular market study or measure to optimize timing
ENFANTS	Limited intention (2)	Implementation (3)	No explicit market analysis and no particular measure to optimize timing
AUTOBAHN	Strong intention (4)	Strong implementation (4)	Market analysis but no particular measure to optimize timing
PACKAGE	Strong intention (4)	Implementation (3)	Market analysis not comprehensive and no particular measure to optimize timing
WINDOW	Intention (3)	Implementation (3)	No particular market study or measure to optimize timing

- 3) The benefit of contacting a well-selected group of bidders with the highest potential synergies in the process of divesting a privately held target

ENFANTS and WINDOW successfully generated interest by contacting a small group of strategic buyers. WINDOW had the advantage of already having experienced a divestment attempt two years before. PACKAGE also contacted a well-selected group of 29 strategic bidders, with the restriction of not including any companies from the same country. In the case of AUTOBAHN, a larger group of 75 strategic buyers was contacted; however, formal bids were only submitted by financial investors. VIEW exclusively contacted potential buyers by means of Firma's investor database which mainly consisted of private individuals acting as

financial investors. While this approach did not exclude operating companies from the process, no selection of the potential buyers with synergies was made. ENFANTS and WINDOW identified the most likely buyer based on indicative offers, considering their capacity to pay the acquisition price.

Table 20 Overview 3 Selecting a group of bidders with the highest potential synergies

Case	Intention	Implementation	Comment
VIEW	Limited intention (2)	Limited implementation (2)	No proactive measures to include the most suitable bidders with the highest synergies
ENFANTS	Strong intention (4)	Strong implementation (4)	Not the strongest intention and implementation to select all bidders with the highest synergies
AUTOBAHN	Very strong intention (5)	Strong implementation (4)	No lack of intention but no offers from strategic bidders received
PACKAGE	Intention (3)	Implementation (3)	Not stronger intention and implementation to select the most suitable bidders with the highest synergies
WINDOW	Strong intention (4)	Strong implementation (4)	Not strongest intention and implementation to select all bidders with the highest synergies

- 4) The benefit of inviting financial investors with access to low cost leverage to the bidding process when divesting a privately held target

In the case of PACKAGE, no financial investors were contacted unless they already had an investment in a company active in the same sector. VIEW and ENFANTS both used the same investor database in order to contact more than 7,000 potential buyers by means of a newsletter. It has been reported that the majority of these registered contacts are private individuals acting as financial investors. While, in both cases, the interest of financial investors could be generated, none of them were invited to conduct a due diligence on the respective target company. While AUTOBAHN contacted a large group of 275 financial investors and closed the transaction with a private equity fund, WINDOW included a smaller group of 10 financial investors, keeping two of them in the divestment process until the final terms of the deal with the buyer were negotiated.

Table 21 Overview 4 Inviting financial investors to the bidding process

Case	Intention	Implementation	Comment
VIEW	Intention (3)	Implementation (3)	Not stronger intention and implementation to select most suitable financial investors
ENFANTS	Intention (3)	Implementation (3)	Not stronger intention and implementation to include all interested financial investors
AUTOBAHN	Very strong intention (5)	Very strong implementation (5)	No lack of intention and implementation
PACKAGE	Limited intention (2)	Limited implementation (2)	No proactive measures to include suitable financial investors
WINDOW	Strong intention (4)	Strong implementation (4)	Not strongest intention and implementation to include all interested financial investors

5) The benefit of increased transparency of company information in the process of divesting a privately held target

ENFANTS, AUTOBAHN, and WINDOW applied full transparency throughout the divestment process. As the information provided to potential buyers was, at each stage, sufficient and, throughout the whole process, consistent, no delays or unexpected risks to the transaction were observed. In the case of VIEW, a major tax issue was only detected after initiation of the contacting phase, which delayed the divestment process by almost a year. The seller of PACKAGE had to disclose additional financial information to amend the numbers initially presented to potential buyers, which resulted in lower bids and the aborting of the divestment process.

Table 22 Overview 5 Increasing the transparency of target company information

Case	Intention	Implementation	Comment
VIEW	Strong intention (4)	Strong implementation (4)	Not strongest intention and implementation to have all relevant information available at the initiation of the process
ENFANTS	Very strong intention (5)	Very strong implementation (5)	No lack of intention and implementation
AUTOBAHN	Very strong intention (5)	Strong implementation (4)	Not strongest implementation of increased transparency
PACKAGE	Intention (3)	Limited implementation (2)	Not stronger intention and limited implementation to have all relevant information available at the initiation of the process
WINDOW	Very strong intention (5)	Very strong implementation (5)	No lack of intention and implementation

6) The effect of well controlled information dissemination to potential bidders in the process of divesting a privately held target

In all five cases, a confidentiality agreement had to be signed by potential buyers before the identities of the target company and its shareholders were revealed. Further, depending on its sensitivity, certain information was only disclosed to parties that were invited to conduct a full due diligence on the target company. While AUTOBAHN and WINDOW invited multiple bidders to the due diligence, ENFANTS and PACKAGE limited the dissemination of all confidential information to one bidder. In the divestment process of AUTOBAHN and WINDOW, meetings with the seller were only held after having received an indicative offer from the bidder, unlike in the case of VIEW, ENFANTS, and PACKAGE. ENFANTS and PACKAGE reported that direct competitors or companies from the same country and sector respectively were not contacted at all in the divestment process.

Table 23 Overview 6 Controlling information dissemination to potential bidders

Case	Intention	Implementation	Comment
VIEW	Strong intention (4)	Implementation (3)	Not strongest intention to control information dissemination and not stronger optimization of timing of communication
ENFANTS	Strong intention (4)	Strong implementation (4)	Not strongest control of information dissemination at due diligence stage of the process
AUTOBAHN	Very strong intention (5)	Strong implementation (4)	Not strongest implementation of control of information dissemination at due diligence stage of the process
PACKAGE	Very strong intention (5)	Strong implementation (4)	Not strongest implementation of optimization of timing of communication
WINDOW	Strong intention (4)	Implementation (3)	Not strongest intention to control information dissemination and not stronger optimization at due diligence stage of the process

7) The benefit of articulating a compelling value and growth story for each buyer in the process of divesting a privately held target

While in all of the five cases, a memorandum highlighting the growth potential of the target company was provided to potential buyers, none of them submitted a written report or presentation highlighting the synergies which a particular buyer could have with the target company. ENFANTS, AUTOBAHN, PACKAGE, and WINDOW analysed potential buyers and their potential synergies with the target companies before the initiation of the contacting phase. Only in the case of VIEW, no proactive selection of potential buyers with synergies was conducted. It can be assumed that, in all cases, the sellers and their advisors highlighted potential synergies to interested parties in phone conversations and meetings. AUTOBAHN reported that the transaction value could be increased by 20% merely by presenting the target company as a software business rather than as an e-commerce company. However, it has to be noted that the sell-side was, in none of the cases, able to clearly quantify the economic value created in the transaction.

Table 24 Overview 7 Articulating a compelling value and growth story for each buyer

Case	Intention	Implementation	Comment
VIEW	Limited intention (2)	Limited implementation (2)	No analysis or tailor made story for each potential buyer
ENFANTS	Intention (3)	Implementation (3)	No tailor made story presented in writing to each potential buyer
AUTOBAHN	Very strong intention (5)	Strong implementation (4)	No lack of intention but no offers from strategic bidders received
PACKAGE	Intention (3)	Implementation (3)	No tailor made story presented in writing to each potential buyer
WINDOW	Intention (3)	Implementation (3)	No tailor made story presented in writing to each potential buyer

8) The benefit of an optimized auction process used when divesting a privately held target

In all cases, the divestment process was set up to be an auction-like process with a large group of potential buyers. In the case of ENFANTS, AUTOBAHN, PACKAGE, and WINDOW, the indicative offers were subject to a deadline. It is important to note that VIEW and ENFANTS made an indication of the expected acquisition price to potential buyers. In all five cases, it was planned that bidders could revise their offer after due diligence. AUTOBAHN invited two bidders to the due diligence and closed the transaction with the buyer who submitted the most attractive binding offer. WINDOW allowed three bidders to conduct a due diligence and negotiated a higher valuation with the buyer, suggesting an earn-out structure as offered by the competing bidders. In the case of VIEW, only one indicative offer was received, whereas in the case of ENFANTS and PACKAGE, only the most likely buyer conducted a due diligence. However, in the case of PACKAGE, the most likely buyer was made to believe that additional bidders were also invited to the due diligence.

Table 25 Overview 8 Optimizing the auction process used in the divestment

Case	Intention	Implementation	Comment
VIEW	Intention (3)	Implementation (3)	Not stronger intention and implementation of an auction process in the final negotiation stage
ENFANTS	Intention (3)	Limited implementation (2)	Not stronger intention and limited implementation of an auction process in the final negotiation stage
AUTOBAHN	Very strong intention (5)	Strong implementation (4)	Not strongest implementation of an auction process in the final negotiation stage
PACKAGE	Intention (3)	Implementation (3)	Not stronger intention and implementation of an auction process in the final negotiation stage
WINDOW	Very strong intention (5)	Strong implementation (4)	Not strongest implementation of an auction process in the final negotiation stage

9) The benefit of deferred or conditional payments as part of the consideration when divesting a privately held target

While in the case of WINDOW, the use of earn-out payments in order to close the gap in the perception of value was anticipated by the advisor, ENFANTS and VIEW were confronted with the concept by the buy-side. AUTOBAHN was sold without the use of deferred or conditional payments; the sellers, however, kept a 20% stake in the company, resulting in a participation in future results and aligned interests with the buyer. In the case of PACKAGE, the valuation gap was, according to the advisor, too large to be overcome by means of earn-out payments or a similar structure. WINDOW was sold for a cash payment representing 80 to 90% of the acquisition price and a variable earn-out mechanism, and ENFANTS for 90% cash and 10% in earn-out payments. In the case of VIEW, the last reported offer was being negotiated as the 30% in earn-out payments were being considered excessive by the sell-side. It has to be assumed that from a seller's perspective, immediate cash out is preferred over deferred and conditional payments because of the additional risk, as reported in the case of WINDOW. It is important to note that, to the best of the researcher's knowledge, in none of the cases was an analysis of the present value of deferred and conditional payments presented.

Table 26 Overview 9 Overcoming price differences using deferred or conditional payments

Case	Intention	Implementation	Comment
VIEW	Intention (3)	Strong implementation (4)	Not stronger intention to use deferred conditional payments but possible implementation
ENFANTS	Limited intention (2)	Implementation (3)	Limited intention to use deferred conditional payments but implementation
AUTOBAHN	Limited intention (2)	Limited implementation (2)	Limited willingness to use deferred conditional payments
PACKAGE	Limited intention (2)	Limited implementation (2)	Limited intention and implementation at the final reported stage of the process
WINDOW	Strong intention (4)	Strong implementation (4)	Not strongest intention and implementation to use deferred conditional payments

10) The benefit of the identification and mitigation of potential deal breakers in the process of divesting a privately held target

Majority stakes in the companies ENFANTS, AUTOBAHN, and WINDOW were sold by their founders. ENFANTS avoided all potential deal breakers in its effort to be well prepared for the transaction and communicating transparently. In the case of WINDOW, the only potential deal breaker that could be identified in this second attempt to sell the company was the high price expectation of the seller, which was anticipated by his advisor. AUTOBAHN and PACKAGE had to disclose the amended financial information after the receipt of indicative offers. In the case of AUTOBAHN, it was only related to the budget and not historic information, which is likely to be why the transaction could still be closed. In the case of PACKAGE and VIEW, it was not possible to overcome the deal breakers at the time. VIEW had to put the divestment

process on hold because of a previously unidentified tax issue, which caused a delay of almost one year. While in the case of WINDOW, PACKAGE, and VIEW, the major issues were perceived to be the valuation gap, it has to be assumed that the valuation gap was rather the result of another issue that could be considered a deal breaker itself and the mitigation would be an adjustment in valuation or payment structure.

Table 27 Overview 10 Identifying and mitigating potential deal breakers

Case	Intention	Implementation	Comment
VIEW	Intention (3)	Limited implementation (2)	Not stronger intention and limited implementation at the final reported stage of the process
ENFANTS	Intention (3)	Strong implementation (4)	Not stronger intention but deal breakers mitigated
AUTOBAHN	Very strong intention (5)	Strong implementation (4)	No lack of intention but not strongest implementation necessary
PACKAGE	Intention (3)	Limited implementation (2)	Not stronger intention and limited implementation to identify and mitigate potential deal breakers from the beginning of the process
WINDOW	Intention (3)	Implementation (3)	Not stronger intention and implementation necessary

5.14.2 Comparing success

The similarities and differences in the outcomes of the individual cases have again been analysed using a rating from 1 to 5, and commented upon in the context of the optimization of the key success factors. Further, the ratings are not to be understood as a rating of the work of the advisor, since the success of a transaction depends on many factors, as observed in the multiple cases studies. Further, it can only be assumed to which extent the studied elements are the determinant factors and how the application of the key success factors actually depends on the characteristics of the target company and on each other.

VIEW still had no final agreement on a transaction, after a period of 18 months into the divestment process, which was not time efficient. While the transaction value indicated was above the stand-alone value, the payment structure had not been accepted by the seller. Even if there was reported intention (3.0) and partially observable implementation (2.9) with respect to the key success factors of the divestment process, only limited optimization of the deal outcome (2.5) from a seller's perspective can be reported.

ENFANTS was sold seven months after the initiation of the divestment process, with no identifiable risk to closing during this time. The transaction value was 7% below the stand-alone value and the proceeds containing deferred and conditional payments for 10% of the acquisition price, but the seller was fully satisfied with regard to the terms of the deal. There was reported intention (3.2) and clearly observable implementation (3.4) with respect to the key

success factors of the divestment process, which led to relatively strong optimization of the deal outcome (3.5) from a seller's perspective.

AUTOBAHN was sold less than six months after the initiation of the divestment process with no identifiable risk to closing during this time. The transaction was closed at the valuation considered fair by the advisor and very favourable by his client. The sellers kept a 20% equity stake, and they continue managing the company. There was a clearly observable strong intention (4.5) and relatively strong implementation (3.9) with respect to the key success factors of the divestment process, which led to very strong optimization of the deal outcome (5) from a seller's perspective.

PACKAGE stopped the divestment process six months after its initiation. The indicative offer that was adjusted after a partial due diligence was below the stand-alone value initially estimated by the advisor and rejected by the client. Even if there was reported intention (3.1) and partially observable implementation (2.7) with respect to the key success factors of the divestment process, only limited optimization of the deal outcome (2.0) from a seller's perspective can be reported.

WINDOW was sold five months after the initiation of the divestment process. Even if the seller's price expectations were not met, including an earn-out scheme for 10 to 20% of the acquisition price, the valuation was 5 to 11% above the stand-alone value estimated by the advisor. There was a relatively strong intention (3.9) and relatively strong implementation (3.7) with respect to the key success factors of the divestment process, which led, at this second attempt, to strong optimization of the deal outcome (4.0) from a seller's perspective.

In the rating of success, it has been considered that the target company should not be sold if the total consideration offered is below the stand-alone value of the company. It has to be noted that an important calculation would be the present value of the deferred and conditional payments that are included in the acquisition price, which was not provided in the five cases. As reported in the case of PACKAGE, if the result of a divestment would not be in the interest of the seller, the process has to be aborted. Ideally, the sell-side recognizes already in the preparation phase that there is no buyer who could pay an acceptable value and, therefore, does not even start the contacting phase. In all the five cases, the price expectation of the seller and the stand-alone valuation provided by the advisor were different. In the cases of PACKAGE and WINDOW, where the difference in perception of value was very important, price became a major risk to closing. With regard to risk mitigation and timing, the divestment process is optimized if a transaction is consumed without unnecessary delay and there is no aborting of

the process for the wrong reasons. It has to be assumed that the advisor supports the client in the decision to close a transaction or to abort. While the study comments on the added value of the advisors involved, it has not been possible to analyse their fee structure and incentive alignment. It has to be assumed that most advisors receive a success fee when a transaction is closed and, therefore, have an incentive to favour closing at a lower valuation rather than an aborting of the divestment process. However, in all the cases where a transaction was closed, the sellers commented positively on their advisors' role and their added value in the divestment process. As was commented in the case of AUTOBAHN, it is important to the sellers that the divestment process is not overly time consuming, or in this particular case, does not distract from the daily business of the management of the company. In the case of ENFANTS and AUTOBAHN, other criteria than the maximum acquisition price were commented upon in the context of buyer selection. Although it would be interesting to further explore the nature of these objectives, it has to be noted that in both cases, the seller participates in the upside of the company even after having sold the majority to the buyer.

The importance of factors determining the seller's ability to maximize the value extracted when divesting a privately held target was studied in the survey, and in five cases of a divestment process. Further, it was analysed how the most important factors are considered when specialized advisors set up a divestment process. From the multiple case studies, it can be concluded that there was the intention to optimize the key success factors in all five divestment processes. In the two cases where no transaction could be closed, the rating for implementation was below 3, whereas in the three cases where a transaction was closed, the rating for implementation was above 3.

5.15 Conclusions from the multiple case studies

In the multiple case studies, it has been observed that a trade-off can exist between optimizing one element of the process or another. Further, potential collinearity of the key success factors have to be addressed. In the case of ENFANTS and PACKAGE, where direct competitors were not contacted, a trade-off between optimizing the result of a potential transaction and minimizing the damage in case of aborting of the divestment process existed. Further, increasing competition by inviting multiple bidders to the full due diligence as in the cases AUTOBAHN and WINDOW is at the expense of restricted information dissemination. On the other hand, controlled information dissemination does not necessarily mean that less information is provided, as it can also be derived from the survey where results show that restricting information dissemination to potential bidders correlates with both, increasing negotiation power by creating competition and increasing the transparency of target company

information. The interpretation that M&A advisors giving a lot of importance to creating competition find it important to control the flow of information to bidders, which is also more important to advisors that offer more delicate target company information throughout the divestment process, is supported by the ratings and observations in the five cases. Correlation of increasing negotiation power by creating competition and selecting a group of bidders with the highest potential synergies, has also been reported in the survey-based study. The observations from the multiple cases studies support these ratings of importance, as in the cases of ENFANTS and AUTOBAHN, not only was a wide range of financial investors informed about the acquisition opportunity, but an active search of the potential buyers with the best strategic fit was also conducted. In the case of AUTOBAHN, it turned out that private equity funds were the most suitable type of buyers for the particular asset. In all cases where financial investors were informed about the investment opportunity, at least one of them submitted an indicative offer.

While the optimization of key success factor 5 (increasing transparency of target company information) may seem to be necessarily at the expense of key success factor 6 (controlling information dissemination to potential bidders), it could be observed in the multiple case study and in the survey-based study that M&A advisors have the intention to optimize both of these factors. There are certainly situations where a trade-off exists, but it appears that advisors manage the flow of information in a way that interested parties have sufficient information at each stage of the process without disclosing any business secret of their clients prematurely. To allow for a competitive bidding process after the due diligence, a larger group of bidders receives all the information necessary to submit a binding offer. It is important to note that independent of the dynamics in the bidding process, from a buyer's perspective, full disclosure of all confidential information to all bidders is not preferable as this could potentially damage the target company's business before and after the closing of a potential transaction. With regard to timing, it can be assumed that if the time from the moment the first potential buyer is informed about the seller's intention until closing is minimized, rumours and resulting damage are kept to the minimum. From a seller's perspective, risks related to the dissemination of confidential information only exist until the transaction has been closed. The multiple case studies imply that if there is a competitive bidding process, a successful closing is very likely. Causality cannot be demonstrated and it has to be assumed that the quality of the asset for sale is also a determinant factor for the outcome of the transaction or even the elements of the divestment process studied. On the other hand, inferior quality of an asset should be considered in the valuation and make a transaction still possible. It has been observed in the cases of PACKAGE and WINDOW, where the difference in perception of value was very important

even between the sellers and their advisors, that price became a major risk to closing. Also from the content analysis it can be concluded that both, increasing transparency of target company information and controlling information dissemination to potential bidders was a major concern to the advisors as they were referring to these key success factors more often than they were addressed by the interviewer.

From the content analysis we have learned that the advisors working for FirmA made more statements about timing and risk than the other advisors that comment more extensively on optimization of valuation and proceeds. This implies that FirmA prioritizes rather a timely closing of the transaction than maximizing the proceeds their clients receive from the divestment of the company. It has also been observed in the multiple case studies that FirmA communicates the expected divestment price to potential buyers, FirmB and Advisor5 did not communicate the valuation of their clients' price expectation to the buy-side at all. While a final conclusion cannot be made, it seems that communicating the valuation from the beginning is contrary to the preference for a large number of indicative offers. In the context of increasing negotiation power, even having additional bids is preferable if such offers are below the expected divestment price. However, if the price expected by his client is in line with the stand-alone value estimated by the M&A advisor, but higher than the acquisition price offered, a divestment might actually destroy economic value. In the context of the dissemination of confidential information, it has to be noted that it is preferable to know before the initiation or early into the divestment process that no transaction will result, as the most sensitive information can be held back until shortly before closing. In turn, reducing the information asymmetry is a necessity for every interested party preparing a binding offer. In all cases where a difference in perception of value between the buy-side and sell-side was reported, deferred and conditional payments were considered a mechanism to close the gap. In the case of ENFANTS and WINDOW, an earn-out structure was part of the deal, and in the third transaction that was closed, the sellers retained a minority stake in the company, which also aligns their interests with the new owners. In all three cases where a transaction was closed, the sellers were asked to participate actively in an operational transition period to reduce the risks related to changes in ownership.

The risks related to change in ownership depend on the involvement of the sellers in the company's management, the management structure of the company, and their interaction with clients and suppliers. In general, the ownership, company characteristics, its business model, and market have to be considered by a buyer to assess the potential rewards and risks of an acquisition. In the multiple case studies, it could be observed that sellers and their advisors intended to address these risks in the divestment process rather than hide them from potential

buyers. Clearly, the sample is too small and the ratings not objective enough in order to study the significance of the 10 elements of the divestment process as determinant factors. However, based on the comparative analysis and validation by previous literature, a best possible practice application of the key success factors can be developed. This theory, on how an optimized divestment process can improve the seller's ability to extract value from the divestment of a privately held target, can serve as a basis for further studies.

It is important to note that all five target companies which were offered for sale have very different characteristics in terms of their market positioning and business models. Further, the sellers' objectives and priorities can vary and explain differences in the divestment process. However, the rich data sample allows us to conclude on the best possible optimization of each success factor, referred to below as the best practice approach. The presented conclusion is building on the conclusions for each of the key success factors in the five case analyses and the above discussion of trade-offs and collinearity.

With regard to increasing negotiation power by creating competition, the following best practice approach can be confirmed. As observed in the multiple case studies, when divesting a privately held company, the divestment process has to be kept competitive from contacting to closing. This includes maximizing the number of potential buyers informed about the investment opportunity, solicitation of multiple bids at the same time, and keeping multiple buyers in the process until closing rather than granting the most likely buyer exclusivity.

With regard to initiating the sales process under favourable market conditions, the following best practice approach can be confirmed. As observed in the multiple case studies, when divesting a privately held company, the market environment has to be analysed and the divestment process accordingly timed. While M&A market studies can be helpful, the particularities of the target company's niche market and the universe of potential buyers have to be considered.

With regard to selecting a group of bidders with the highest potential synergies, the following best practice approach can be confirmed. As observed in the multiple case studies, when divesting a privately held company, it is important to identify and contact the potential buyers who are likely to make the best bids and are able to pay the acquisition price offered. An active screening of the universe of potential buyers and an analysis of potential synergies is necessary in order to obtain assurance that these buyers are not excluded from the divestment process.

With regard to inviting financial investors to the bidding process, the following best practice approach can be confirmed. As observed in the multiple case studies, when divesting a privately

held company, it is important to select adequate financial investors to increase the buyer universe. Even if, in some cases, the strategic buyers are able to make more competitive bids, financial investors can be kept in the divestment process in the context of increased negotiation power.

With regard to increasing the transparency of target company information, the following best practice approach can be confirmed. As observed in the multiple case studies, when divesting a privately held company, it is important to be as transparent as possible from the beginning of the process, to avoid losing time and trust. However, this is only possible if the seller and his advisor have all the information well prepared and at hand for dissemination at the appropriate moment.

With regard to restricting information dissemination to potential bidders, the following best practice approach can be confirmed. As observed in the multiple case studies, when divesting a privately held company, the flow of information has to be adequately controlled. A standard is the signing of a confidentiality agreement before disclosing the identity of the target. However, the dissemination of confidential information has to be individually planned for each divestment process, considering its benefits for the outcome of the divestment process and the cost of potentially resulting damage to the target company.

With regard to articulating a compelling value and growth story for each buyer, the following best practice approach can be confirmed. As observed in the multiple case studies, when divesting a privately held company, it has to be actively highlighted to each bidder how the acquisition creates economic value. As a first step, it is necessary to screen the universe of potential buyers and analyse potential synergies.

With regard to optimizing the auction process used in the divestment, the following best practice approach can be confirmed. As observed in the multiple case studies, there is not a single best auction process when divesting a privately held company. However, the divestment process has to be adjusted to the particular situation in order to pressurize bidders to make the highest bid possible.

With regard to overcoming price differences using deferred or conditional payments, the following best practice approach can be confirmed. As observed in the multiple case studies, when divesting a privately held company, an adequate payment structure has to be considered and its present value calculated. According to the conditions regarding the payments and their timing, the value today, on a risk adjusted basis, can be close to its amount, or much lower.

With regard to identifying and mitigating potential deal breakers, the following best practice approach can be confirmed. As observed in the multiple case studies, when divesting a privately held company, any unnecessary risks to the transaction have to be avoided and, if possible, identified, anticipated and mitigated beforehand or immediately. While mitigation can sometimes be achieved through credible communication with potential buyers, price adjustments, deferred or conditional payments, and guarantees might sometimes be necessary. However, it is important to note that there is always the possibility that a divestment process is better stopped without a transaction because it is preferable for the target company shareholders not to sell at the terms offered by bidders.

The divestment processes observed occurred in an inefficient market where information had been actively provided to potential buyers. It is very uncommon for privately held companies to publish financial results or revealing details of their agreements with clients and suppliers. Therefore, part of the advisors' role is to prepare such information for submission to interested parties, in collaboration with the target company. While the sellers' prioritization of confidentiality was respected by the advisors in all cases, a well structured process made it possible to distribute sufficient information to interested parties in order for them to make an indicative offer. FirmA uses a large investor database to reach out to potential buyers, whereas FirmB and Advisor5 had a more targeted contacting strategy. It could be observed that this did not result in fewer indicative offers. In all cases where indicative offers were made, the seller did not wish to invite all potential buyers to a full due diligence in order to protect confidential information. The target companies of the divestment processes studied have to be considered relatively small, even within the mid-market range. Whilst accepting that small companies are a major element of growth in the economy it has to be recognized that small companies tend to have stronger dependency on owners, often managing the company themselves. In all five cases studied, the owners willing to sell were actively managing the company.

6 Theory development and conclusion

6.1 Literature reappraisal and theory development

6.1.1 Introduction

The conclusions drawn from the multiple cases studies have been used for a reappraisal of the existing literature. The resulting theory development consists of a best possible practice application of all the 10 key success factors, which can be considered the grounding for further studies of the divestment process of privately held companies. Hansen (2001) describes the typical tasks as consisting of (1) preparing the necessary company information and drawing up

a list of potential buyers; (2) first confidential contact and controlled distribution of information; and (3) organizing indicative and binding bidding rounds. He comments that these tasks are commonly performed by an advisor, who is hired to optimize the transaction from the seller's perspective. While, typically, acquisitions are made by buyers who have synergies with the target company, under the concept of value distribution, it is important to force the bidder to include the value created through synergies in a competitive bid (Andrade, Mitchell, and Stafford, 2001).

6.1.2 Review of elements studied

- 1) The benefit of increased negotiation power through competition in the process of divesting a privately held target

From the multiple cases studies, it has been derived that the divestment process has to be kept competitive from contacting to closing. Measures included maximizing the number of potential buyers informed about the investment opportunity, solicitation of multiple bids at the same time, and keeping multiple buyers in the process until closing rather than granting the most likely buyer exclusivity. This best practice is in line with the existing knowledge base which reveals that in competitive bidding processes involving a publicly listed target company, an acquisition premium is offered by potential buyers (Andrade, Mitchell, and Stafford, 2001). Sellers are able to maximize the price if the universe of potential buyers is known and no information asymmetries exist (Boone and Mulherin, 2007). In the case of privately held companies, the seller has to take the initiative and create competition in the sales process (Graebner and Eisenhardt, 2004). Further, Officer (2007) finds evidence, in an empirical study on privately held targets, that subsidiaries divested with reduced negotiation power are sold at lower relative valuations.

- 2) The benefit of initiation of the sales process under favourable market conditions when divesting a privately held target

From the multiple cases studies, it has been derived that the market environment has to be analysed and the divestment process accordingly timed. While M&A market studies can be helpful, the particularities of the target company's niche market and the universe of potential buyers have to be considered. This best practice is in line with the existing knowledge base, which reveals that the structure and M&A activity in the target company's industry largely drive the acquisition appetite and the number of potential bidders for both, listed and private targets (Andrade, Mitchell, and Stafford, 2001). Further, the same authors report that there is empirical evidence that the timing of a transaction relative to merger waves, trends in equity markets, as

well as the availability and cost of financial leverage, is relevant for value extraction in a company sale.

- 3) The benefit of contacting a well-selected group of bidders with the highest potential synergies in the process of divesting a privately held target

From the multiple cases studies, it has been derived that when divesting a privately held company, it is important to identify and contact the potential buyers who are likely to make the best bids and are able to pay the acquisition price offered. An active screening of the universe of potential buyers and an analysis of potential synergies is necessary in order to obtain assurance that these buyers are not excluded from the divestment process. This best practice is in line with empirical evidence on publicly listed companies which reveals that, on average, value is created in takeover transactions through synergies (Andrade, Mitchell, and Stafford, 2001). Further, the same authors report that both practitioners and academics agree on the fact that higher offers can be obtained from a bidder with synergies.

- 4) The benefit of inviting financial investors with access to low cost leverage to the bidding process when divesting a privately held target

From the multiple cases studies, it has been derived that when divesting a privately held company, it is important to select adequate financial investors to increase the buyer universe. Even if, in some cases, the strategic buyers are able to make more competitive bids, financial investors can be kept in the divestment process in the context of increased negotiation power. This best practice is in line with the existing knowledge base which reveals that private equity investors can be an attractive counterpart, as their mission and structure allows for efficient acquisitions of privately held targets, using their expertise in order to minimize the cost of capital (Ivashina and Kovner, 2011).

- 5) The benefit of increased transparency of company information in the process of divesting a privately held target

From the multiple cases studies, it has been derived that when divesting a privately held company, it is important to be as transparent as possible from the beginning of the process, to avoid losing time and trust. This, however, is only possible if the seller and his advisor have all the information well prepared and at hand, for dissemination at the appropriate moment. This best practice is in line with the existing knowledge base which reveals that it is fundamental that the seller discloses relevant information in a controlled, yet credible manner, in order to allow potential buyers with synergies to offer the best possible price (de Pamphilis, 2008). In

an empirical study on the private enterprise discount, DiGabriele (2007) finds evidence that transparency is positively correlated with value extracted in a transaction. The same author reports that more transparency is necessary regarding the target company information that is provided to potential buyers, in order for them to gain confidence about suitability and potential synergies.

- 6) The effect of well controlled information dissemination to potential bidders in the process of divesting a privately held target

From the multiple cases studies, it has been derived that when divesting a privately held company, the flow of information has to be adequately controlled. A standard is the signing of a confidentiality agreement before disclosing the identity of the target. However, the dissemination of confidential information has to be individually planned for each divestment process taking into account the benefits for the outcome of the divestment process and the cost of potentially resulting damage to the target company. This best practice is in line with Hansen (2001) formulating a theory stating that the cost of disclosing confidential information has to be compared to its potential benefits. Further, confidential information dissemination is mentioned as key selling propositions of M&A advisory firms in business literature (McCrostie and Driessen, 2013).

- 7) The benefit of articulating a compelling value and growth story for each buyer in the process of divesting a privately held target

From the multiple cases studies, it has been derived that when divesting a privately held company, it has to be actively highlighted to each bidder how the acquisition creates economic value. As a first step, it is necessary to screen the universe of potential buyers and analyse potential synergies. This best practice is in line with a worldwide survey with company managers involved in divestments, in which the participants stated that in order to maximize the value created in a transaction, the full range of potential buyers with important synergies has to be considered and a compelling value and growth story formulated for each (McCrostie and Driessen, 2013).

- 8) The benefit of an optimized auction process used when divesting a privately held target

From the multiple cases studies, it has been derived that there is not a single best auction process when divesting a privately held company. However, the divestment process has to be adjusted to the particular situation in order to pressurize bidders to make the highest possible bid. This best practice is not in line with Hansen (2001), who simply describes the sales process typically

used as an open, ascending (English) auction where the winning bidder pays the second-highest bid. Hansen (2001) argues that having two rounds of bidding is not best practice for an auction and suggests that the seller charges an entry fee to the auction at the due diligence stage, in order to increase the expected total revenue from the transaction. It is important to note that what Hansen defines as the first bidding round is actually just an indication of interest, including a non-binding offer, subject to due diligence where sufficient information is provided to bidders to make a binding offer. In all five cases, the process was set up with two bidding rounds without charging entry fees. In the cases of AUTOBAHN and PACKAGE, even an attempt from the sell-side to reduce the bidders' due diligence cost could be observed. Free access to audited information is a standard for listed companies, and according to an empirical study on the private enterprise discount by DiGabriele (2007), it is a driver for an optimized divestment price.

- 9) The benefit of deferred or conditional payments as part of the consideration when divesting a privately held target

From the multiple cases studies, it has been derived that when divesting a privately held company, an adequate payment structure has to be considered and its present value calculated. According to the conditions regarding the payments and their timing, the value today on a risk adjusted basis can be significantly lower. This best practice is supported by the existing empirical evidence from privately held companies that in order to bridge an information gap and a potentially resulting price gap, divestments can incorporate earn-out payments (Cain, Denis, and Denis, 2006). With regard to the optionality of earn-out payments, Von Werra (2014) comments that the probability adjusted present value of foreseen earn-out payments has to be calculated. Further, deal structuring is mentioned as a key selling proposition of M&A advisory firms in business literature (McCrostie and Driessen, 2013).

- 10) The benefit of the identification and mitigation of potential deal breakers in the process of divesting a privately held target

From the multiple cases studies, it has been derived that when divesting a privately held company, any unnecessary risks to the transaction have to be avoided and, if possible, identified, anticipated and mitigated beforehand or immediately. While mitigation can sometimes be achieved through credible communication with potential buyers, price adjustments, deferred or conditional payments, and guarantees might be necessary. This best practice is supported by Defren, Wirtz, and Ullrich (2012), who report that, along with the

seller's reputation and warranties, factors such as the quality of information, openness, and credibility of information are positively correlated with divestment success.

6.1.3 Measurement of success

The measures of success used in this study are supported by Defren, Wirtz, and Ullrich (2012), who defined the measures of success to be the selling price, speed of negotiations, and transaction certainty. The existing knowledge base reveals that the target company should not be sold if the total consideration offered is below the stand-alone value of the company. From the buy-side perspective, the maximum price that can be offered in a competitive bidding process would be the value of the target company once it is owned by the buyer (Damodaran, 2006). While the challenge of estimating value creation through the synergies and fair value of a privately held company remains, an important calculation would be the present value of deferred and conditional payments that are included in the acquisition price. If the result of a divestment would not be in the interest of the seller, the process has to be aborted. Ideally, the sell-side recognizes, in the preparation phase, that there is no buyer that could pay the stand-alone value or more and, therefore, does not even start the contacting phase. With regard to risk mitigation and timing, the divestment process is optimized if a transaction is consummated without unnecessary delay and there is no aborting for the wrong reasons.

From the multiple cases studies, it has been concluded that advisors add value to the divestment process. This is in line with Golubov et al. (2012), who comment that the value proposition of M&A advisors is that they help in optimizing the outcome of the transaction, supporting their clients with knowledge, resources, contacts, and their credibility in the market. The fee structure and incentive alignment have not been analysed in this study, but it has to be assumed that most advisors receive a success fee when a transaction is closed. Therefore, M&A advisors on the buy- and the sell-side might have an incentive to favour closing, even if aborting would be in the interests of their clients.

6.2 Final conclusion

The importance of the factors determining the seller's ability to maximize the value extracted when divesting a privately held target has been assessed by means of a survey and multiple case studies. The main purpose was to analyse how the key success factors are considered when specialized advisors set up a divestment process. In conclusion, a good practice approach can be formulated as a theory in the following manner.

During the preparation phase of a divestment process, the market environment has to be analysed by conducting market studies. Further, an assessment of the particularities of the target company's niche market and the universe of potential buyers is necessary. If the seller has no

constraints, the divestment process can then be accordingly timed. A valuation has to be conducted in order to determine the stand-alone value as the minimum price a buyer has to pay to the seller. This valuation should not be communicated to the buyers, who will have to make their own analysis of the value of the target company to them. An active screening of the universe of potential buyers and an analysis of potential synergies is necessary to obtain assurance that these buyers are not excluded from the divestment process. Besides companies with the best strategic fit, a wide range of financial investors should also be considered, to increase the buyer universe, if they can be the most adequate buyers for particular assets. If the cost of potential damage is higher than the benefit to the divestment process, direct competitors have to be excluded from the shortlist of buyers to be contacted. This decision has to be made based on the planned dissemination of confidential information that has to consider the target's characteristics and its particular situation. All the information has to be well prepared and at hand for dissemination at the appropriate moment. In order to keep the process as short as possible and the dissemination of confidential information to the minimum, it is important that any issues which could potentially become a risk to the transaction are identified and assessed before starting the contacting phase.

During the contacting phase, the potential buyers have to be informed about the investment opportunity without revealing the identities of the target company and its shareholders before the signing of the confidentiality agreement. At this stage of the process, interested parties are expeditiously provided with sufficient information for them to analyse the target company and submit an indicative offer. While maximizing the number of potential buyers contacted is one possible strategy, the ultimate objective is to receive sufficient acceptable bids in order to create a competitive environment. In any case, the contacting strategy has to be based on the analysis of the buyer universe conducted in the preparation phase and in line with the planned dissemination of confidential information. The basis for indicative offers is a memorandum detailing strategic, operational, and financial information. Ideally, the particular synergies with the target company have to be highlighted to each potential buyer in a tailor made version of this memorandum. The sell-side has to be as transparent as possible from the beginning of the process, to avoid losing time and trust. The most sensitive information, however, should only be disseminated to the buyer shortly before closing. Any issues arising at this stage of the process, including differences in the perception of value, have to be discussed in order to see if potential deal breakers can be mitigated. As the mitigation can result in a less attractive deal, it is important to remember that if the result of a divestment would not be in the interests of the seller, the process should be aborted.

During the due diligence phase, negotiation power should be further increased. If possible, multiple bidders should be invited, even if the most likely buyer has already been identified. While strategic buyers often make more competitive bids, financial investors can be kept in the divestment process with lower risk to closing and less concern with regard to confidentiality. The sell-side must not guarantee exclusive negotiations to a bidder even if there is just one interested party which is reluctant to assume the cost of the due diligence. Based on an analysis of the due diligence cost and the probability of closing, it should be determined whether the seller prefers to guarantee the due diligence cost or to assume the risk that the bidder may pull out of the process. To increase control of the dissemination of confidential information, a partial due diligence can be conducted with a larger number of bidders, and the most sensitive information is only disclosed to the buyer until shortly before closing the transaction. However, this is only recommendable if the sensitive information cannot affect the terms of the transaction negotiated beforehand. The objective of the due diligence is to validate the information provided in the memorandum and to serve as a basis for binding offers. If there are still potential deal breakers only identified at this stage of the process, they should be immediately mitigated and, if necessary, the valuation, payment structure, and guarantees competitively negotiated.

Regarding the final negotiations and closing, the divestment process has to be adjusted to the particular situation in order to pressurize bidders to make the highest possible final offer. Even if a substantial investment of time and money has been accrued over the divestment process, the target company must not be sold if the total consideration offered is below the stand-alone value of the company. While a transaction structure closing the gap in the perception of valuation should be considered, the present value of deferred and conditional payments should be calculated to determine the acquisition price. If an earn-out structure is necessary to close a deal, it is important to align incentives so that the sellers and the new owners both want the company to achieve or outperform projected earnings. While it can be assumed that maximizing the consideration received is the seller's objective, all other preferences and priorities should be clearly defined before initiating the divestment process. With regard to risk mitigation and timing, the divestment process is optimized if a transaction is consummated without unnecessary delay and there is no aborting for the wrong reasons.

The research question has been answered, as 10 key success factors have been studied and used in combination with additional observations, to describe what factors influence the ability of sellers to extract value when divesting a privately held target, and how these factors can be optimized. It can be argued that objective 3 of this research project has not fully been realized, as the causality between the optimization of the success factors and the outcome of the

divestment process remains to be demonstrated. As this study is limited in the size of the sample and objectivity of data collected, further research is required to be conducted based on the theory developed.

6.3 Limitations and further research

The interpretation of results is limited due to the previously discussed selection bias, subjectivity, and the constraint of anonymous data collection. The selection bias cannot be fully mitigated and should be considered a limitation to the validity of results. As discussed in the methodology section and the introduction to the multiple case studies, there are internal and external validity issues related to sampling and data collection. The main sources of information in the data collection process were the advisors. The intention was to limit the study to topics and questions which did not give participants a significant incentive for falsification or dishonesty. Further, it remains a limitation to the study that the full range of experiences could not be included, because of limited accessibility and other constraints on data collection.

In the multiple case studies, questionnaires have been sent to the clients and deal documentation has been used to triangulate the data collected from participating M&A advisors. As the conclusions have been made after a systematic analysis of all cases, a cross case analysis and further triangulation by the means of content analysis and a survey-based study, the grounding for the theory of good practice is considered very strong. The findings are consistent with previous studies on takeovers and build a good basis for further research. Industry reports and previous empirical studies support most of the conclusions presented as good practice in the divestment process of a privately held enterprise. However, in the case of the optimization of the auction process, previous literature (Hansen, 2001) contradicts the findings from the multiple case studies. Further studies in auction theory could help explain the observed good practice. However, it is important to note that the divestment process cannot be described as a two-stage bidding process as long as only one round of bidding is conducted with binding offers, which was the case in the five observed processes.

Further research has to be conducted in order to test for differences between deals from the lower bound of the mid-market size, such as the divestments processes studied in this project, and transactions involving a privately held target of similar size to that of listed companies. This study does not answer the question if the private equity discount is merely a premium for risk or if it indicates an opportunity for acquirers to create additional value for their shareholders at the cost of the sellers. However, even in the case of these small companies that are highly dependent on their owners management skills, acquirers were able to mitigate risks by the means of differed and conditional payments, guarantees or aligned incentives through minority

stakes. The observed solutions that were implemented in the cases of these small businesses, to engage the seller in the ongoing success of the business, may be different for larger companies with a more complex management and shareholder structure. Still, as small businesses depending on their managing owners are much more common, the relevance for practitioners is evident.

Even if the systematic qualitative discussion has to be considered more suitable to answer the research question and to gain better understanding of the divestment process, a larger sample needs to be studied, in order to generalize findings to a wider population. Based on the best possible practice described, the key success factors can be operationalized. Further, a quantitative study will need to control for target company characteristics such as industry, region, ownership, and size. Further research with a hypothesis test could build upon the presented results and overcome the problem of subjectivity. The M&A advisory firms participating in the multiple case studies have expressed their willingness to provide available deal data from the past 3-5 years. Such a set of deal data would be unique as the few databases which include privately held targets have very limited data on the transactions and do not consider the divestment as a process. It would be interesting to compare deal characteristics from one region to the other and the particularities of cross-border transactions. Further, there could be differences between succession transactions in family businesses and subsidiary sales or other types of companies. The two advisory firms which participated in this study have a different approach and structure. While FirmA is one firm with many consultants having a high degree of independence but using a shared intranet and investor database, FirmB is an international network of local M&A firms which work together on the basis of fixed referral fees and collaborate in branding and marketing. It would be interesting to study the different structures of M&A advisory firms in more detail, assessing the advantages of the different concepts. An important element that was not analysed in this study is the relationship between the M&A advisor and the client. It has been observed that incentives are aligned using a success based fee structure. However, a more detailed assessment of the added value and the cost of the M&A advisor would require additional data, which would need to be collected with a greater degree of independence from the M&A advisors themselves.

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